

# Comprehensive Annual Financial Report



## Utility Board of the City of Key West, Florida

For the Fiscal Years Ended September 30, 2018 and 2017



UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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CHIEF EXECUTIVE OFFICER



**UTILITY BOARD OF THE CITY OF KEY WEST**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Years Ended September 30, 2018 and 2017**  
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UTILITY BOARD OF THE CITY OF KEY WEST

January 23, 2019

To the Chairman and Members  
of the Utility Board of the  
City of Key West, Florida

The Comprehensive Annual Financial Report (CAFR) of the Utility Board of the City of Key West, Florida (the Board) d/b/a Keys Energy Services (KEYS), for the Fiscal Years ended September 30, 2018 and 2017, is submitted herewith, pursuant to and by the authority of Chapter 69-1191, Laws of Florida, as amended, and Resolution No. 532 of the Board, Article V, Section 5.01 (H), adopted November 13, 1985, as amended and supplemented. The CAFR was compiled by the staff of the Finance Department with the close cooperation of our independent auditor and represents the official report of the Utility's financial operations and conditions to the rate payers, the Board, management personnel, rating agencies, bond holders and other interested parties.

Responsibility for both the accuracy of the presented data as well as the completeness and fairness of the presentation, including all disclosures, rests with the Board and Management. We believe that the data as presented is accurate in all material respects, that the data is presented in a manner designed to fairly set forth the financial position and results of operations of the Board and that all disclosures necessary to enable the reader to gain maximum understanding of the Board's financial affairs have been included.

Resolution No. 532 of the Board, Article V, Section 5.01 (H), adopted November 13, 1985, as amended and supplemented requires an annual audit by independent certified public accountants. For Fiscal Year 2018 (FY2018) and Fiscal Year 2017 (FY2017) the Utility Board selected the accounting firm of Oropeza & Parks, CPAs. The auditor's report on the financial statements is included in the Financial Section of this report.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

The present organization was created by provisions of Chapter 69-1191, Laws of Florida (1969), as amended, to manage, operate, and maintain the electric utility serving the citizens of the City of Key West and the Lower Florida Keys. The Board consists of five members who serve four year terms.

## **Year in Review**

### **Reflecting on the Past, Looking Forward Toward a Bright Future**

In FY2018, KEYS marked a momentous milestone while forging ahead into the next chapter in its history.

#### ***Powering Paradise for 75 Years***

The City of Key West purchased the electric utility in 1943 and the City Council created the Utility Board to oversee KEYS (then known as City Electric System before the utility's name was changed in 2002). In 1969, the Florida State Legislature passed a new enabling act for the governing of KEYS, which is still in effect today, and calls for the popular election of five Utility Board members serving four-year terms.

Initially, KEYS only provided electric service to the City of Key West. In 1953, the utility expanded its service area to the Seven-Mile Bridge. In those early years, electricity was produced via local generation.

In the late 1970s, the Utility Board studied alternative power supplies and decided to construct a transmission line (or TIELINE) to interconnect to the mainland power grid. On May 8, 1987, KEYS interconnected the TIELINE with the mainland power grid and KEYS' operations changed dramatically.

KEYS currently imports nearly all of its power supply and uses local generation for emergency back-up only. The utility relies on power from the mainland because it is far less expensive than local, diesel-powered generation. As a member of the Florida Municipal Power Agency's All Requirements Project, KEYS pools its power resources with other public power utilities in the State. Together, the public power utilities in the state of Florida enjoy greater efficiency and economies of scale.

KEYS is a nationally recognized Platinum Reliable Public Power Provider (RP3) by the American Public Power Association and maintains a highly respected position within its local community and industry for its dedication to reliable electric service and forward thinking initiatives.

The utility marked its 75<sup>th</sup> anniversary on August 13, 2018, with numerous events, including the publication of a history book and companion exhibit at the Key West Custom House.

#### ***KEYS PARTICIPATING IN ONE OF THE LARGEST MUNICIPAL SOLAR PROJECTS IN THE NATION***

On May 4, 2018, KEYS announced its participation in the Florida Municipal Solar Project, a large-scale solar energy project that will enable KEYS to provide renewable energy to its customers in the most cost-effective way. Designed to generate 223.5-megawatts of solar energy, the planned Florida Municipal Solar Project will be one of the largest municipal-backed solar projects in the United States. Project plans call for three solar farms expected to generate 74.5-megawatts each.

The Florida Municipal Solar Project is a joint effort between KEYS, 11 additional Florida municipal electric utilities, the Florida Municipal Power Agency (FMPA), and NextEra Florida Renewables, LLC. FMPA is serving as the project coordinator. The builder, owner, and operator of the solar farms is Florida-based NextEra Florida Renewables, LLC. KEYS along with fellow participating municipal electric



utilities will purchase power from the project. There are no up-front costs for participating municipal electric utilities, and KEYS will only pay for the power it purchases.

KEYS will purchase five-megawatts of power from the Florida Municipal Solar Project. This will offset 3.5 – 7-percent of KEYS purchased power, depending on the time of year. One megawatt serves approximately 200 typical residential electric customers in Florida.

As part of the project, approximately 900,000 solar panels will be installed on three solar farms expected to be built in Osceola and Orange Counties. Combined, the three solar sites will total approximately 1,200 acres, or the equivalent of 900 football fields filled with solar panels. Panels will be installed on a racking system that utilizes single-axis tracking technology, which means a computer-controlled motor will move the panel to track the sun as it moves from east to west, maximizing the panel's power output.

After an estimated 18-month permitting process, construction is expected to begin in early 2020, and the project should be operational by June 30, 2020.

## **Entity Definition**

*Enabling Legislation* – Pursuant to the provisions of Chapter 69-1191, Laws of Florida, Special Act of 1969, as amended and supplemented, Section 11, the said Utility Board shall have full and complete power and exclusive authority to fix rates and charges for electricity and charges or prices for any other real and personal property, products and services, materials and commodities, by-products of and from all or any of its activities or operations, furnished or sold by said Utility Board, and to provide for the collection of the same.

*Bond Resolution* – Pursuant to the provisions of the Original Bond Resolution, 532, adopted on November 13, 1985, as amended and supplemented, Article V, Section 5.01, (B), the Board covenants to fix, establish, revise from time to time whenever necessary, maintain and collect always such fees, rates, rentals and other charges for the use of the product, services and facilities of the Utility which will always provide revenues in each fiscal year sufficient to pay, and out of such funds pay, 100% of all operating expenses of the Utility in such year and all reserve or other payments herein required, and 125% of the debt service requirement in such fiscal year on the bonds. Such rates, fees, rentals or other charges shall not be reduced so as to be insufficient to provide revenues for such purposes.

The Board further covenants and agrees that the Board will annually within thirty (30) days after adoption of the budget revise such fees, rates, rentals and other charges for the use of the product, services and facilities of the Utility to the extent necessary.

On July 9, 2014 Resolution 795 was approved amending the Original Bond Resolution 532. Resolution 795 amends the methodology of calculating KEYS Debt Service Coverage. Unfunded portions of both Other Post-Employment Benefits (OPEB) and pension expense are excluded from the calculation, provided at least 75% of the minimum pension obligation is paid each year.

*The Florida Public Service Commission (FPSC)* – Since KEYS is a public utility the FPSC has rate structure jurisdiction. No rules and regulations, or schedules of rates and charges, or modifications or revisions of the same, shall be effective until filed with and approved by the FPSC as provided by law. Upon acceptable showing by any utility, the FPSC may waive or modify, as to that utility, the provisions of any rule, except when such provisions are fixed by statute. No deviation from these rules shall be permitted unless authorized in writing by the FPSC.

Each utility shall file with the FPSC tariffs applicable to all territory served by it, showing all rates, classifications, and charges for service subject to the jurisdiction of the FPSC, furnished by the utility, and all rules and regulations relating thereto. A letter of transmittal shall be accompanied by various items in connection with each service classification in which any change is proposed. Where the change involves a rate or charge and the electric utility elects to make a cost study, the utility shall file a cost information statement containing a summary of the cost study performed. After acceptance, one stamped copy will be returned to the utility, which shall be the notice to the utility that the filing has been accepted and approved.

*Florida Municipal Power Agency (FMPA)* – The Utility is a member of, and receives all of its power needs from FMPA's All-Requirements Project (ARP). Each member appoints one representative to FMPA's Board of Directors, which governs the agency's activities. The governance of rates charged to members includes the ARP Committee (one vote per member) and the FMPA Board of Directors (a member's vote is weighted based on the member city's net energy for load).

### **Basis of Accounting**

The financial statements are prepared on the basis of GAAP using the Federal Energy Regulatory Commission (FERC) chart of accounts, which are peculiar to utilities. Revenues are recognized in the period earned and expenses are recognized in the period incurred.

This report together with the accounting and budgeting systems, have been designed to conform to the standards set forth by the Governmental Accounting Standards Board (GASB).

Budgetary control is maintained through the use of monthly financial reports and the use of purchase orders, work orders, and miscellaneous cash disbursements and approval procedures. Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials, allocated indirect charges, and capitalized interest if appropriate. Major renewals and betterments are capitalized while minor replacements and repairs are expensed as incurred.

### **Internal Accounting Controls**

In developing and maintaining the accounting system, consideration is given by the administration as to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition; the reliability of financial records for preparing financial statements in conformity with GAAP; and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

The first level of control comes directly from the Enabling Act (69-1161). Section 17 requires that KEYS engage an independent certified public accountant to complete an annual audit. The second level of control comes from the covenants made by KEYS to the bondholders.

### **Budgetary Control**

In accordance with the Enabling Legislation, KEYS holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlay prior to October 1 of the fiscal year. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers, and an analysis of variances is prepared quarterly.

During the year, staff may make amendments within the operating and the capital budget that do not change the total budget, provided that the change is within the same limitations established by

Resolution adopted by KEYS. The Board approves all other budget changes. If supplemental appropriations are necessary, in accordance with Utility Board policies, amended budgetary data is presented herein. Budget appropriations lapse at each fiscal year-end, except for the Capital Budget. The budget is adopted on a basis consistent with KEYS' accrual basis of accounting.

**Rates for Service**

The following table compares monthly charges for electric service among selected utilities in Florida for the month of September 30, 2018.

<b>COMPARISON OF MONTHLY ELECTRIC BILLS</b>				
		Residential 1,000 kWh	Commercial 30KW - 6,000 kWh	
	Keys Energy Services	\$ 117.00	\$ 653.70	
	Alachua	\$ 113.54	\$ 753.11	
	Bartow	\$ 106.72	\$ 715.42	
	Bushnell	\$ 126.05	\$ 798.55	
<i>Other Municipal Utilities and Cooperatives in Florida</i>	Fort Meade	\$ 121.56	\$ 752.88	
	Gainesville	\$ 121.00	\$ 955.60	
	Green Cove Springs	\$ 118.00	\$ 809.00	
	Homestead	\$ 114.23	\$ 789.15	
	Jacksonville Beach	\$ 113.91	\$ 662.46	
	Leesburg	\$ 119.22	\$ 815.88	
	Mount Dora	\$ 116.22	\$ 598.93	
	Ocala	\$ 114.64	\$ 686.01	
	Vero Beach	\$ 122.95	\$ 784.22	
	FL Keys Electric Cooperative	\$ 139.49	\$ 523.94	
	<i>Investor-Owned Utilities in Florida</i>	Gulf Power	\$ 135.68	\$ 734.63
		Duke Energy	\$ 128.38	\$ 7,777.03
Tampa Electric Co		\$ 111.47	\$ 621.71	
<i>Source: Florida Municipal Electric Association, Inc. Tallahassee, Florida</i>				

**Customer Statistics**

At fiscal year-end 2018, the Utility's total customer base was 30,009 or 100 less customers than the prior year level of 30,109. The number of residential customers decreased 123 to 25,461. The number of commercial customers increased 20 to 4,475. Lighting accounts increased three to 61.

The average monthly residential consumption of 1,139 kWh was lower than the FY2017 level by 19 kWh. The average monthly commercial consumption of 5,580 kWh was lower than the FY2017 level by 332 kWh. The consumption for the Military decreased 2,136,737 kWh. Comparison data for both years includes kWh accrued for usage incurred but not yet billed to customers.

The Non-Coincident Peak Demand (60 minute net) decreased to 145.9 MW from the FY2017 peak of 148.6 MW. The Load Factor was 58.4% in FY2018 compared to 58.7% in FY2017.

## **Purchased Power**

The Board voted on July 7, 1997 and amended January 1, 2011, to participate in the FMPA True All-Requirements Project (TARP) whereby the Board will purchase their bulk power supply requirements, in excess of certain excluded resources, from the ARP. KEYS began operations as a project participant effective April 1, 1998. As a member of the ARP, KEYS resources and costs under other purchase power contracts have been assigned to FMPA. Other power resources include the sale of power to Florida Keys Electric Cooperative Association, Inc. (FKEC) and interchange service arrangements with other Florida utilities, customers with renewable generating facilities, and with power marketers.

## **Transmission Facilities**

KEYS is connected to mainland Florida's transmission network through a 61-mile long, 138 kV transmission line jointly owned by KEYS and FKEC which allows interconnection between the two at FKEC's Marathon Substation. The 138 kV transmission line extends northeast along U.S. 1 through FKEC's service territory and ties in with Florida Power and Light (FPL) at the Monroe-Dade County line. KEYS solely-owned portion of the 138 kV line extends from Marathon Key, in the FKEC service territory, to the Stock Island (U.S. 1) Substation. Along this route, the line loops in and out of the Big Pine and Big Coppitt substations.

Pursuant to the current transmission agreement with FKEC, the Board constructed and jointly owns with FKEC a second 138 kV transmission line, which extends 21 miles from the Tavernier Substation in the FKEC service territory to the Monroe-Dade County line, where it ties into the FPL 138 kV transmission line.

The two transmission lines provide greater reliability and increased import capability to KEYS. With the additional segment of 138 kV line the firm MW transfer allocation for KEYS over the Transmission Line is approximately 132 MW. Currently, the transfer capability of the transmission line is approximately 329 MW. KEYS local transmission facilities consist of seven-69 kV lines (14.9 miles) in Key West/Stock Island and four-138 kV lines (51.2 miles) from Stock Island to Marathon. Distribution is supplied from the 69/138 kV system to KEYS' nine distribution substations.

## **Distribution Facilities**

KEYS' distribution system comprises approximately 240 miles of three-phase equivalent 13.8 kV lines from nine distribution substations. Switching for the 13.8 kV distribution system is provided by 13.8 kV metal-clad switchgear. Distribution at 13.8 kV is provided via substation power transformers with varying capacities. There are numerous sectionalizing and isolation switches on the 13.8 kV distribution systems. Additionally, pole mount and padmount transformers are used on the distribution systems to step down from distribution voltage to utilization voltage at customer connections.

## **Local Generation Facilities**

All generating units belonging to FMPA have a total synchronized rating of 111.0 MW. The units include four combustion turbine (CT) units, two medium speed diesel units and a converted peaking diesel unit all of which operate with No. 2 oil.

## **Debt Administration**

The principal amount of long term debt, net of the current portion, was \$44.2 million at September 30, 2018 compared to \$45.9 million at September 30, 2017. All outstanding debt had fixed interest rates. Total revenue bond debt was comprised of one refunding bond issue 1991 and one refunding bond issue 2014.

## **Long Term Financial Planning**

Long-term financial planning includes monitoring KEYS electric rates while providing quality service for its ratepayers. Each year KEYS prepares an annual budget and five year financial plan detailing revenues, rates, operating expenses, capital projects and debt service.

In addition to the pay-off of Series 1991 bonds at October 2018, during the next five years, KEYS will repay the existing Line of Credit due October 2020.

As a result of Hurricane IRMA, KEYS also plans to contribute \$1.2 million per year for five years to a newly established Storm Fund.

## **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Utility Board of the City of Key West for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2017. This was the 26<sup>th</sup> consecutive year that KEYS has achieved this prestigious national award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easy to read and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

We believe that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## **Acknowledgments**

We extend our personal thanks to the dedicated efforts of the Finance Department and efforts of the many other employees from throughout the Company who spent many hours preparing, revising and finalizing this document. We are grateful to Oropeza & Parks, CPAs whose professional skill and integrity have allowed us to present a report that meets the highest standards of financial reporting. Finally, we would like to thank the members of the Board for their interest and support in planning and conducting the operations of the Utility in a responsible and progressive manner.

Respectfully submitted,

  
Jack Wetzler  
Assistant General Manager &  
Chief Financial Officer

  
Lynne Tejeda  
General Manager &  
Chief Executive Officer

Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

Utility Board of the City of Key West  
Florida

For its Comprehensive Annual  
Financial Report for the  
Fiscal Year Ended

September 30, 2017

*Christopher P. Morill*

Executive Director/CEO

# Utility Board of the City of Key West, Florida

## September 30, 2018



**Chair Peter Batty (Group 2)** has served on the Utility Board since 2005. He is a Florida Licensed Real Estate Broker and Florida Supreme Court Certified Circuit and Family Mediator. On November 18, 2000, he was ordained as a Permanent Deacon to the Archdiocese of Miami. Mr. Batty received his Bachelor of Science degree from Eastern Michigan University and his Master's degree from St. Thomas University. Mr. Batty is a board member of the Star of the Sea Foundation and former member of the Florida Keys Community Foundation College Board and former Vice President of the Wesley House Family Services Board of Directors. He also serves on the American Public Power Association's Policymakers Council. Mr. Batty was born in Salisbury, England, and immigrated to the United States in 1955. He has lived in the Florida Keys since 1989 where he raised four children with his wife, Ellen.

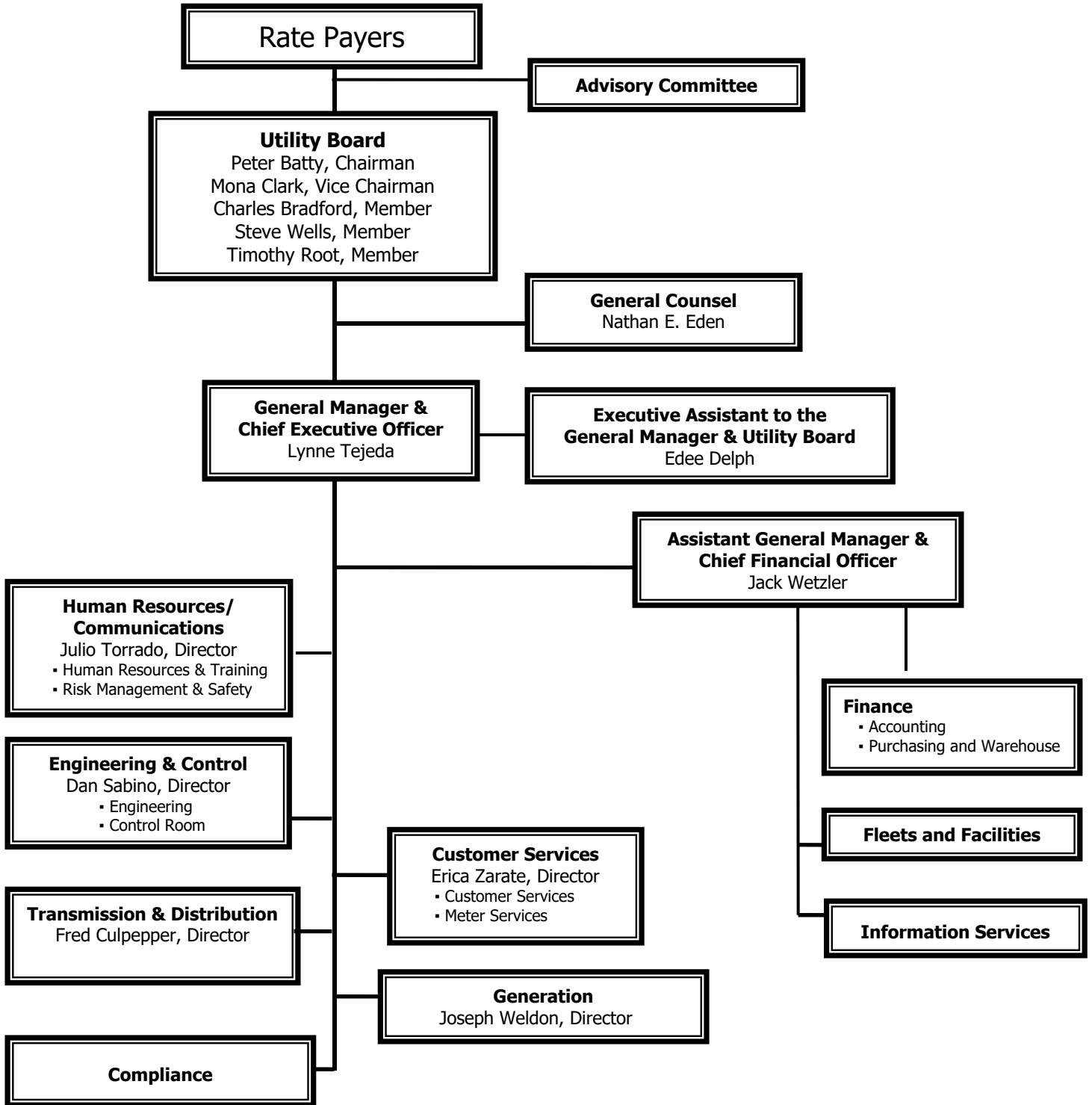
**Vice Chair Mona C. Clark (Group 4)** has served on the Utility Board since 2004 and holds the distinction of being the first elected female Board member in the Utility's history. She is a retired educator and administrator for the Monroe County School District, where she worked for 35 years. Ms. Clark received her Bachelor of Science in Education degree from Florida A & M University and her Masters of Education/Leadership degree from the University of South Florida. Ms. Clark is a Board member of Womankind, Chair of the Dr. Martin Luther King, Jr. Scholarship and Birthday Celebration Committee, Mentor for the Take Stock in Children program, and a 7th grade CCD teacher at St. Mary's Star of the Sea Church, and member of the Catholic Daughters of the Americas. Ms. Clark also served on the Florida Keys Community College Board of Trustees from 1993 to 2001, serving as Board Chair from 1999 to 2001. She previously served as Chair of the Mayor's Revolving Loan Fund for the City of Key West and Chair of the Citizen's Advisory Task Force for the Florida Keys Housing Authority, additionally she is the past Sponsor/Director of Tomorrow's Leaders Today, past Secretary for the Wesley House Family Services Board of Directors, and past Treasurer and Vice President of the local branch of the N.A.A.C.P.

**Mr. Charles A. Bradford Jr. (Group 5)** has served on the Utility Board since 2006. Mr. Bradford retired from Commercial Banking in 2014 with almost 40 years of banking experience. He received his Bachelor's degree in Banking and Finance from the University of North Florida and has certifications in Consumer Lending, Cash Flow Analysis, and Accounting. Mr. Bradford is a member of St. Paul's Episcopal Church, and Arcturus, and serves on a number of other boards in Key West. In addition, he is past chair of the Key West Chamber of Commerce and former member of KEYS' Advisory Committee. Mr. Bradford has lived in Key West since 1980.

**Mr. Timothy Root (Group 3)** has served on the Utility Board since 2013. He was born and raised in Lancaster, Pennsylvania, and traded school, at age 17, for a trade union job building the shipyards in Philadelphia. He moved to Key West in 1987, where he started as a project manager for developer Pritam Singh's historic structures venture. Mr. Root worked on the Little White House and other downtown Key West projects. In 1998, he helped build Hurricane Hole Marina and was a part-owner for several years. Mr. Root has been a general contractor since 1980 and is currently working as the chief estimating officer for McKendry Builders Inc. He has served on the Key West Historic Architectural Review Commission, Board of Directors for Habitat for Humanity, and was appointed to the City of Key West Planning Board, Monroe County's Affordable Housing Task Force, and serves on the Board of Directors of the Tourist Development Council. Mr. Root and his wife Reta have three children and four grandchildren, they live in Key West.

**Mr. Steve Wells (Group 1)** has served on the Utility Board since 2015. He was born and raised in Key West and is a retired Shift Commander with the City of Key West Fire Department. Mr. Wells is a graduate of Key West High School and serves on the board of the Southernmost Federal Credit Union. Mr. Wells and his wife Denise have raised four children in Key West.

# Organizational Chart Fiscal Year Ended September 30, 2018





## Keys Energy Services Employees as of September 30, 2018

Maria Abreu	Jeremy N Edwards	Catherine Nix	Jeanette Williams
Victoria Alexis Albury	Manuel Estevez	Patrick Nolan	Donnie Yarbrough
Matthew Alfonso	John Fallon	Gricel Owen	Erica Zarate
Raiko Alfonso	Albert Fernandez	Allen Palka	
Heather Arencibia	Elizabeth Franco	Jeff Partington	
Marcos Arencibia	Daniel Garcia III	Louis Pazo Jr	
Pedro Arencibia	Ray Garcia	Patty Pazo	
Irina J Baker	Mimi Gartenmayer	Andy Perez	
Eric Balbuena	Roger George	Dina Perez	
Terry Beeman	Thomas Ryan Gomez	Jesse S Perloff	
Robert Michael Berger	Miguel Gonzalez	Garett P Pita	
Mayra Bethel	Zahny Gonzalez	Martha Ramas	
Jennifer Bevis	Jimmy Lee Greene	Derek A Randolph	
Antonio Boza	Michael Griffin	Tyler Randolph	
Kris Bremer	Tennille B Guieb	Beverly Ray	
M M Briones Hidalgo	Amy Haas	Joal Rivero	
Eric Cyrus Brown	Sabrina Hall	Anthony Roberts	
Sandra Brown	Brittani Harden	James B Robinson	
Mike Canizares	Michael Hendricks	Alvaro Rodriguez	
Walter Cashwell	Hernan Hernandez	Amanda Rodriguez	
George Castellon	Vincent Phillip Jones	David Rodriguez	
Christopher M Clynes*	Jorge Kappa	Armando Rojas	
David Cottar Jr	Ana Kerr	Matthew W Roy	
David Cottar	Sean Kipp	Daniel Sabino	
Deborah Cox-Barnett	Phil Klausing	Diana Sanchez	
Fred Culpepper	Harold Knowles	Paul Sanchez*	
Chasity Curry	Gregory L Ledbetter	Thomas Schuler*	
Jamie Curry	Victor Linares	Gregory Sztorc	
Nina G Delgado	Jacek Majewski	Lynne Tejada	
Daniel Delice	Herschell Major	Julio J. Torrado	
Edee Delph	Laurence Marius	Ashlee N Townsend	
Robert C DePhillips Jr	David Martyniuk	Ivan Urbay	
Rachanewan Devanas	Cindy McVeigh	Hugo Valdes	
Joseph Diaz	Neil Mellies	Joseph B Varela	
Michael Domenech	Amber Menendez	Bryan Veliz	
William D Drager	Juan Menendez	Dane'le Waldon	
William Duran	Robert Mesa	Frankie Webb	
Micheal A Durbin	Armando Mira III	Joseph P Weldon	
Cassie Dzatlik	Sharon Moore	Jack Wetzler	
Shawn Edmonds	Griff Niekerk	Robert E Wilkins	

Employee Count: 123 * Employee of the Quarter 2018
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## INDEPENDENT AUDITOR'S REPORT

Utility Board of the City of Key West, Florida  
"Keys Energy Services"  
Key West, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of the Utility Board of the City of Key West, Florida, d/b/a Keys Energy Services, ("KEYS") as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise KEYS' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of KEYS as of September 30, 2018 and 2017, and the changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matters**

The financial statements for September 30, 2017 were restated for a change in accounting treatment of hurricane restoration expenditures. Information related to the restatement are discussed in Note 18 of the financial statements. Our opinion is not modified with respect to the restatement.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

The schedules of revenues earned and the schedule of revenues and expenditures – budget to actual, as listed in the table of contents, were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of revenues earned and the schedule of revenues and expenditures – budget to actual, as listed in the table of contents, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

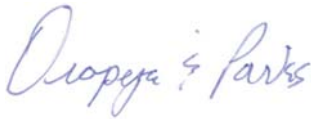
Our audit was conducted for the purpose of forming opinions on the KEYS' basic financial statements. The introductory section and statistical section, as listed in the table

of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2019 on our consideration of the KEYS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KEYS' internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Oropaya & Parks". The signature is written in a cursive style.

January 23, 2019

## Management's Discussion and Analysis

As management of the Utility Board of the City of Key West, Florida (the Board) d/b/a Keys Energy Services (KEYS), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our Letter of Transmittal.

### Required Financial Statements

The financial statements consist of the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The *Statements of Net Position* provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities) and provides the basis for assessing the liquidity and financial flexibility of the Utility. All of the current year's revenues and expenses are accounted for in the *Statements of Revenues, Expenses and Changes in Net Position*. These statements report all the revenues and expenses during the time periods indicated, and can be used to determine whether the Utility has successfully recovered all its costs. The primary purpose of the *Statements of Cash Flows* is to provide information about the Utility's cash receipts and cash payments. These statements report cash receipts, cash payments, and net changes in cash resulting from activities related to operations, non-capital financing, and capital and related financing. The statements also provide answers to such questions as "where did cash come from?", "what was cash used for?" and "what was the change in cash balance during the reporting period?"

### Restatement of Prior Year Financial Statements

Hurricane Irma, a category four strength hurricane made landfall in the Lower Florida Keys on September 10, 2017. As soon as winds diminished, KEYS personnel, along with over 500 crew members from seven states, began the largest storm recovery effort in KEYS history.

As of September 30, 2017, KEYS had incurred approximately \$19.7 million in hurricane restoration expenditures which were recorded as grant expense. A receivable and grant revenue of approximately \$17.2 million was recorded for estimated FEMA reimbursement.

Restoration activities continued throughout FY2018 and as of September 30, 2018 KEYS had incurred an additional \$16.2 million in expenditures. It has been determined that the proper accounting for these restoration expenditures is to record per KEYS normal capitalization policy. Hence, grant expense was reduced by \$19.4 million and Construction Work in Progress increased by \$19.4 million, increasing Net Position at September 30, 2017.

### Prior Period Adjustment

During fiscal year 2018, KEYS adopted GASB Statement No. 75 "Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions (OPEB)"pensions. GASB 75 requires recording Total OPEB Liability when a plan is unfunded. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The amount of the prior period adjustment is \$57,834,970. The restated beginning net position is \$33,671,754.

## Management's Discussion and Analysis

### Statements of Net Position

The Utility's Net Position decreased in FY2018 by \$39,137,833 or 42.8%.

	2016	Restated		2017 to 2018 Increase (Decrease)	
		2017	2018	Amount	Percent
Total Unrestricted Current Assets	\$ 28,634,885	\$ 47,970,640	\$ 69,785,544	\$ 21,814,904	45.5%
Total Restricted Current Assets	17,591,670	12,365,996	20,382,858	8,016,862	64.8%
Total Capital Assets	134,263,619	153,761,289	168,212,995	14,451,706	9.4%
Total Restricted Non-Current Assets	6,771,653	10,678,852	10,399,732	(279,120)	-2.6%
Total Unrestricted Non-Current Assets	18,537,407	10,904,491	1,931,962	(8,972,529)	-82.3%
Total Assets	205,799,234	235,681,268	270,713,091	35,031,823	14.9%
Total Deferred Outflows of Resources	13,776,565	13,445,396	8,944,313	(4,501,083)	-33.5%
Total Assets and Deferred Outflows of Resources	\$ 219,575,799	\$ 249,126,664	\$ 279,657,404	\$ 30,530,740	12.3%
Total Unrestricted Current Liabilities	10,559,214	29,964,570	16,871,157	(13,093,413)	-43.7%
Total Restricted Current Liabilities	17,481,671	15,984,425	15,745,689	(238,736)	-1.5%
Total Non-Current Liabilities	113,925,413	111,470,899	169,636,061	58,165,162	52.2%
Total Liabilities	141,966,298	157,419,894	202,252,907	44,833,013	28.5%
Total Deferred Inflows of Resources	492,345	200,046	25,035,606	24,835,560	12414.9%
Total Liabilities and Deferred Inflows of Resources	142,458,643	157,619,940	227,288,513	69,668,573	44.2%
Net Position:					
Net Investment in Capital Assets	\$ 96,179,764	\$ 117,010,466	\$ 132,753,278	\$ 15,742,812	13.5%
Restricted	5,402,634	8,614,247	9,382,791	768,544	8.9%
Unrestricted	(24,465,242)	(34,117,989)	(89,767,178)	(55,649,189)	163.1%
Net Position:	77,117,156	91,506,724	52,368,891	(39,137,833)	-42.8%
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 219,575,799	\$ 249,126,664	\$ 279,657,404	\$ 30,530,740	12.3%

### The changes in Assets from FY2017 to FY2018 are listed as follows:

- Increase in Total Unrestricted Current Assets – \$21.8 million.
  - Increase in Cash – \$10.6 million primarily due to an increase in the Revenue Fund due to proceeds from sale of Key West Steam Plant.
  - Decrease in Customer Receivables – \$3.0 million - Prior year end receivable was higher due to Hurricane Irma – September 2017 electric billings were delayed being issued and customer payments were delayed.
  - Increase in Due from Other Governments - \$12.1 million due to FY2018 FEMA reimbursable IRMA expenses.
  
- Increase in Total Restricted Current Assets – \$8.0 million.
  - Increase in Cash, net of Prepaid Bond – \$7.7 million primarily due to unused line of credit proceeds.

## Management's Discussion and Analysis

### Statements of Net Position (continued)

- Increase in Total Capital Assets – \$14.5 million.
  - Increase in Utility Plant – \$47.3 million increase due to assets placed into service offset by \$2.3 million decrease in assets due to retirements.

The larger assets added to Utility Plant are as follows:

Hurricane Irma capital assets	\$ 34,996,045
Ralph Garcia Fleets & Facilities Bldg	\$ 3,386,243
Storm Hardening	\$ 2,834,706
Poles and Undergrounds	\$ 1,469,692
Purchase of Transformers	\$ 1,138,359
Solar Panel Ralph Garcia Bldg	\$ 436,154
Substation relays	\$ 380,643
Key Haven estates	\$ 342,717
Inaccessible easements	\$ 308,282
Kennedy Drive substation perimeter fence	\$ 272,171
Line 3 dampers	\$ 265,516

- Increase in Accumulated Depreciation – \$5.5 million due to annual depreciation partially offset by annual retirements.
- Decrease in Construction Work in Progress - \$25.0 million due to completion of projects and assets placed in service.
- Decrease in Total Restricted Non-Current Assets – \$279,120.
  - Decrease in Investments from the Renewal and Replacement cash fund.
- Decrease in Total Unrestricted Non-Current Assets - \$8.9 million.
  - Primarily due to \$7.0 million decrease in Long Term Note Receivable related to sale of Key West Steam Plant property and \$1.4 million decrease in investments.
- Decrease in Deferred Outflows of Resources – \$4.5 million.
  - Decrease in Deferred Outflows Related to Net Pension Liability – \$6.3 million related to GASB 68.
  - Increase in Deferred Outflows Related to OPEB Liability - \$1.9M due to implementation of GASB 75.

### The changes in Assets from FY2016 to FY2017 are listed as follows:

- Increase in Total Unrestricted Current Assets – \$19.3 million.
  - Increase in Customer Receivables – \$3.7 million due to timing of customer billing and receipt of customer payments related to Hurricane Irma.
  - Increase in Due from Other Governments - \$17.2 million due to receivable recorded for eligible expenses related to Hurricane Irma expected to be recovered through Federal Emergency Management Agency's (FEMA) Public Assistance Program.
  - Decrease in Unbilled Customer Receivables - \$311,900 due to lower kWh sales in September 2017 related to Hurricane Irma.
  - Decrease in Inventory - \$472,100 due to timing of use of inventory items related to Hurricane restoration and replenishing inventory to pre-storm levels.

## Management's Discussion and Analysis

### Statements of Net Position (continued)

- Decrease in Total Restricted Current Assets – \$5.2 million.
  - Decrease in Cash – \$3.8 million due to the expiration of a \$4.1M Guaranteed Investment Certificate (GIC) which was reinvested in a long term Treasury Note.
  - Decrease in Investments - \$1.4 million due to liquidating investments for cashflow purposes.
- Increase in Total Capital Assets – \$19.5 million.
  - Increase in Utility Plant – \$6.9 million increase due to assets placed into service offset by \$2.1 million decrease in assets due to retirements.

The larger assets added to Utility Plant are as follows:

Substation switchgear and building	\$ 2,675,443
Purchase of Poles	\$ 927,215
Trenching and conduit underground service	\$ 842,347
Transmission line relay protectors	\$ 474,873
138kv transmission line breakers	\$ 448,048
Purchase of Transformers	\$ 280,865
Purchase of Meters	\$ 179,984
Substation transformer cooling improvements	\$ 171,279
Financial system software	\$ 108,930

- Increase in Accumulated Depreciation – \$5.7 million due to annual depreciation partially offset by annual retirements.
  - Increase in Construction Work in Progress - \$20.4 million primarily related to Hurricane Irma restoration.
- Increase in Total Restricted Non-Current Assets – \$3.9 million.
    - Increase in Investments from reinvesting proceeds of expired GIC.
  - Decrease in Total Unrestricted Non-Current Assets - \$7.6 million.
    - Decrease in Unrestricted Investments and Long Term Note Receivable.
  - Decrease in Deferred Outflows of Resources – \$331,200.
    - Decrease in Deferred Outflows Related to Net Pension Liability – \$132,400.
    - Decrease in Deferred Outflows Related to Loss of Refunding - \$198,800 due to the implementation of GASB 68. See Note 8 in Notes to Financial Statements for further details regarding GASB 68.

### The changes in Liabilities from FY2017 to FY2018 are listed as follows:

- Decrease in Unrestricted Current Liabilities – \$13.1 million
  - Decrease in Accounts Payable \$18.0 million. September 2017 outstanding payables included Hurricane Irma restoration costs.
  - Increase in Accrued Cost of Power Adjustment \$3.9 million.
- Decrease in Restricted Current Liabilities – \$238,700 due to lower accrued interest.



## Management's Discussion and Analysis

### Statements of Net Position (continued)

- Increase in Non-Current Liabilities – \$58.2 million
  - Increase in Accrued OPEB Liability - \$31.8 million due to implementation of GASB 75
  - Increase in Line Of Credit - \$42.5 million due to Line of Credit obtained to fund Hurricane restoration.
  - Decrease in Accrued Interest - \$7.2 million due to Series 1991 bonds.
  - Decrease in Net Pension Liability - \$7.0 million per GASB 68.
- Increase in Deferred Inflows of Resources – \$24.8 million
  - Increase in Deferred Inflows related to Net Pension Liability - \$2.3 million per GASB 68.
  - Increase in Deferred Inflows related to OPEB Liability - \$22.5 million due to implementation of GASB 75.

### The changes in Liabilities from FY2016 to FY2017 are listed as follows:

- Increase in Unrestricted Current Liabilities – \$19.4 million primarily due to higher Accounts Payable and Accrued Wages related expenses incurred during Hurricane Irma restoration.
- Decrease in Restricted Current Liabilities – \$1.5 million due to lower restricted accounts payable related to capital projects.
- Decrease in Non-Current Liabilities – \$2.5 million due to \$2.2 million increase in Other Post-Employment Benefits (OPEB) and \$4.0 million increase in Net Pension Liability (GASB 68), offset by \$1.8 million decrease in Revenue Bonds and \$6.6 million decrease in Accrued Interest.
- Decrease in Deferred Inflows of Resources – \$292,300 due to decrease in the deferred inflows related to Net Pension Liability related to GASB 68. See Note 8 in Notes to Financial Statements for further details regarding GASB 68.

## Management's Discussion and Analysis

### Statements of Revenues, Expenses and Changes in Net Position

Electric sales of 698.9 Gigawatt hours (GWh's) in FY2018 were lower than FY2017 sales of 724.5 GWh's, by 3.5%. (includes kWh accrual for unbilled revenue)

	2016	Restated		2017 to 2018 Variance	
		2017	2018	Amount	Percent
Electric Revenues	\$ 87,877,504	\$ 91,658,742	\$ 85,050,853	\$ (6,607,889)	-7.2%
Other Electric Revenues	1,965,566	1,035,914	2,585,080	1,549,166	149.5%
Total Operating Revenues	89,843,070	92,694,656	87,635,933	(5,058,723)	-5.5%
Purchased Power	46,744,853	51,340,755	44,486,246	(6,854,509)	-13.4%
Transmission Expenses	6,446,897	7,167,798	7,681,566	513,768	7.2%
Distribution Expenses	7,553,159	7,681,620	8,558,458	876,838	11.4%
Customer Accounts and Collection Expenses	1,935,831	2,117,621	2,062,154	(55,467)	-2.6%
Administrative and General Expenses	13,577,487	16,113,156	7,340,530	(8,772,626)	-54.4%
Depreciation	7,377,387	7,434,250	7,531,883	97,633	1.3%
Taxes Other than Income Taxes	2,145,028	2,363,099	2,208,970	(154,129)	-6.5%
Total Operating Expenses	85,780,642	94,218,299	79,869,807	(14,348,492)	-15.2%
Interest Income	713,099	576,858	955,422	378,564	65.6%
Miscellaneous Non-Operating Revenue	1,900,661	2,292,265	2,332,505	40,240	1.8%
Payment to City of Key West	(390,989)	(428,851)	(422,850)	6,001	-1.4%
Interest on Debt	(3,832,387)	(3,289,035)	(2,706,392)	582,643	-17.7%
Interest on Line of Credit	-	-	(778,191)	(778,191)	100.0%
Interest on Customer Deposits	(21,437)	(791)	-	791	-100.0%
Amortization of Bond (Discount)/Premium	323,885	323,885	323,884	(1)	0.0%
Loss on Disposal of Assets	(616,043)	(263,283)	(149,011)	114,272	-43.4%
Net Appreciation in Fair Value of Investments	(59,453)	(217,808)	(193,221)	24,587	-11.3%
Grant Revenue/(Expense) net	-	16,919,971	11,568,865	(5,351,106)	-31.6%
Total Non-Operating Revenue and (Expenses)	(1,982,664)	15,913,211	10,931,011	(4,982,200)	-31.3%
Change in Net Position	2,079,764	14,389,568	18,697,137	4,307,569	29.9%
Net Position, Beginning of Year	75,037,392	77,117,156	91,506,724	14,389,568	18.7%
Prior Period adjustment of OPEB liability	-	-	(57,834,970)	-	0.0%
Net Position, End of Year	\$ 77,117,156	\$ 91,506,724	\$ 52,368,891	\$ (39,137,833)	-42.8%

**The Change in Net Position was a decrease of \$39.1 million in FY2018. This was primarily due to:**

- Decrease in Total Operating Revenues – \$5.1 million.
  - Decrease in Electric Revenue – \$6.6 million primarily a result of lower kWh sales and lower power cost adjustment revenue.
  - Increase in Other Electric Revenues – \$1.5 million is primarily a result of higher line extension revenue.

## Management's Discussion and Analysis

### Statements of Revenues, Expenses and Changes in Net Position (cont'd)

- Decrease in Total Operating Expenses – \$14.3 million.
  - Decrease in Purchased Power Costs – \$6.8 million consistent with lower kWh and demand.
  - Increase in Transmission Costs – \$513,800 primarily due to outside services related to pole painting.
  - Increase in Distribution Costs - \$876,800 primarily due to increased wages and benefits.
  - Decrease in Administrative and General Expenses - \$8.8 million, primarily due to lower employee benefit expense related to OPEB expense with implementation of GASB 75 and lower pension expense related to GASB 68.
- Decrease in Total Non-Operating Revenue & Expenses – \$4.9 million.
  - Decrease in net Grant Revenue and Grant Expense \$5.4 million. Hurricane restoration continued during FY2018 but was lower than FY2017, correspondingly, estimated FEMA reimbursements were lower.

### **The Change in Net Position was an increase of \$14.4 million in FY2017. This was primarily due to:**

- Increase in Total Operating Revenues – \$2.8 million.
  - Increase in Electric Revenue – \$3.7 million primarily a result of higher power cost adjustment revenue offset by lower energy and demand revenue due to lower kWh sales.
  - Decrease in Other Electric Revenues – \$929,700 is primarily a result of lower line extension revenue.
- Increase in Total Operating Expenses – \$8.4 million.
  - Increase in Purchased Power Costs – \$4.6 million due to higher energy rate.
  - Increase in Transmission Costs – \$721,000 primarily due to FMPA transmission costs allocated to KEYS.
  - Increase in Administrative and General Expenses - \$2.5 million due to higher pension expense related to GASB 68 and lower transfer of administrative costs to capital.
- Increase in Total Non-Operating Revenue & Expenses – \$17.9 million.
  - Increase in Miscellaneous Non-Operating Revenue – \$391,600 primarily due to revenue received for reimbursement of legal fees from FY2016 settlement of a vendor dispute.
  - Decrease in Interest on Debt – \$543,400 is primarily due to the lower principal.
  - Decrease in Loss on Disposal of Assets – \$352,800 primarily due to losses associated with recording disposals of street, area, and traffic lights in FY2016.
  - Increase in Grant Revenue/Expense net - \$16.9 million due to Hurricane Irma

### **Statement of Cash Flows**

KEYS rate structure is designed to collect sufficient revenues to pay debt service, recover operating and maintenance expenses, and fund transfers. During FY2018, as a result of Hurricane IRMA, KEYS obtained a line of credit to cover the costs of restoration until FEMA reimbursements are received.

## Management's Discussion and Analysis

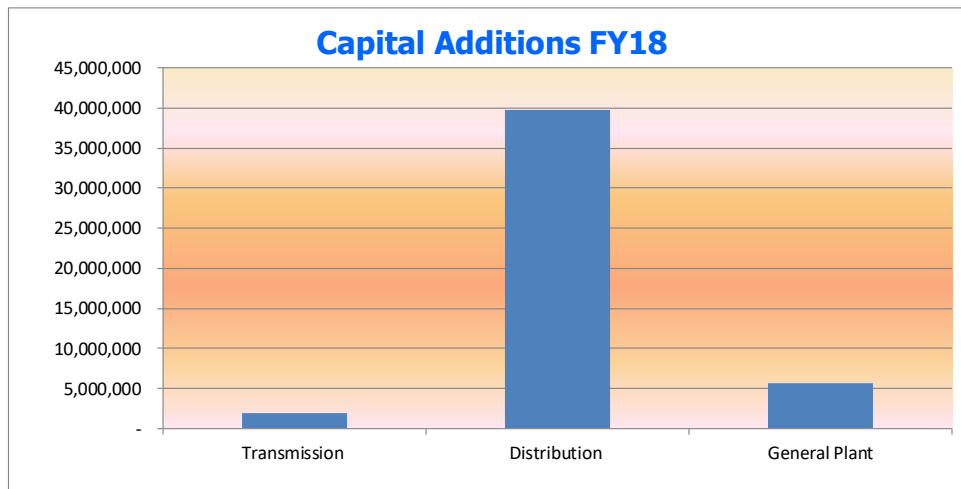
### Restricted Assets

Total restricted current assets were \$20.4 million at September 30, 2018, compared to \$12.4 million at September 30, 2017. KEYS bond resolution specifies the manner in which monies on deposit in the various funds must be used. The Renewal and Replacement Fund is used only for paying the cost of extensions, enlargements, replacements or additions to the capital assets of the Utility. The Sinking Fund is used only to pay principal and interest on Bonds as they mature and become due. The proceeds from the Line of Credit are to be used only for capital projects.

### Significant Capital Assets

Capital Assets (excluding Construction Work in Progress) totaled \$165.3 million at the end of FY2018 compared to \$125.9 million the prior year, an increase of \$39.4 million which is primarily the result of capital assets related to Hurricane Irma restoration, offset by disposals and accumulated depreciation. See Note 1 in Notes to Financial Statements for further information.

Capital additions are illustrated in the following graph:



### Long Term Debt

The Utility's trustee will pay to the bondholders a principal and interest payment of \$10.2 million on October 1, 2018. In accordance with the Bond covenants, monthly transfers are made from the Revenue Fund to the Sinking Fund. The bondholders are paid annual principal payments on October 1<sup>st</sup> and semiannual interest payments on April 1<sup>st</sup> and October 1<sup>st</sup> of each year.

KEYS total debt service payments have been structured to average approximately \$11.2 million a year through 2019 and \$4.2 million a year from 2020 through 2032. See Note 5 in Notes to Financial Statements for further information.

### Summary

This report is intended to provide our customers, bondholders, and other interested parties with a general overview of the financial position of the Utility Board of the City of Key West, Florida and to indicate accountability for the revenues received. Questions about this report or requests for additional information should be directed to the Assistant General Manager & Chief Financial Officer, 305-295-1013, [Jack.Wetzler@keysenergy.com](mailto:Jack.Wetzler@keysenergy.com) or to our offices located at 1001 James Street, Key West, Florida 33040.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2018 AND 2017**

	<u>ASSETS</u>		
	<u>2018</u>	<u>Restated 2017</u>	<u>Increase/ (Decrease)</u>
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 20,139,120	\$ 9,518,037	\$ 10,621,083
Investments	3,455,171	2,453,519	1,001,652
Customer Accounts Receivable, net of Allowance for Bad Debts of \$153,838 and \$234,888 for FY18 and FY17 respectively	6,948,299	9,980,214	(3,031,915)
Unbilled Customer Receivables	4,754,604	4,189,837	564,767
Other Accounts Receivable	346,294	1,276,468	(930,174)
Current Portion of Lease Receivable - KWSP	-	125,450	(125,450)
Current Portion of Note Receivable - FMPA/TARP	619,453	595,628	23,825
Plant Material and Operating Supplies Inventory	3,739,264	2,233,748	1,505,516
Prepaid Expenses	380,978	332,751	48,227
Interest Receivable	51,141	63,192	(12,051)
Due From Other Governments	29,351,220	17,201,796	12,149,424
<b>Total Unrestricted Current Assets</b>	<b>69,785,544</b>	<b>47,970,640</b>	<b>21,814,904</b>
<b>Restricted Current Assets:</b>			
Cash and Cash Equivalents	19,027,711	1,023,203	18,004,508
Investments	1,320,087	1,096,480	223,607
Prepaid Expenses	-	10,211,444	(10,211,444)
Interest Receivable	35,060	34,869	191
<b>Total Restricted Current Assets</b>	<b>20,382,858</b>	<b>12,365,996</b>	<b>8,016,862</b>
<b>Total Current Assets</b>	<b>90,168,402</b>	<b>60,336,636</b>	<b>29,831,766</b>
<b>Non-Current Assets</b>			
<b>Capital Assets</b>			
Utility Plant	274,927,525	230,006,009	44,921,516
Less Accumulated Depreciation	109,586,141	104,105,906	5,480,235
Net Utility Plant	165,341,384	125,900,103	39,441,281
Construction in Progress	2,871,611	27,861,186	(24,989,575)
<b>Total Capital Assets</b>	<b>168,212,995</b>	<b>153,761,289</b>	<b>14,451,706</b>
<b>Restricted Non-Current Assets</b>			
Investments	8,129,127	8,408,604	(279,477)
Interest Receivable	4,066	3,709	357
Deposits	2,266,539	2,266,539	-
<b>Total Restricted Non-Current Assets</b>	<b>10,399,732</b>	<b>10,678,852</b>	<b>(279,120)</b>
<b>Unrestricted Non-Current Assets</b>			
Investments	1,265,926	2,708,892	(1,442,966)
Interest Receivable	21,805	23,970	(2,165)
Long Term Lease Receivable - KWSP	-	6,907,946	(6,907,946)
Long Term Note Receivable - FMPA/TARP	644,231	1,263,683	(619,452)
<b>Total Unrestricted Non-Current Assets</b>	<b>1,931,962</b>	<b>10,904,491</b>	<b>(8,972,529)</b>
<b>Total Non-Current Assets</b>	<b>180,544,689</b>	<b>175,344,632</b>	<b>5,200,057</b>
<b>Deferred Outflows of Resources</b>			
Loss on Refunding Series 2014	2,584,455	2,783,259	(198,804)
Deferred Outflows Related to Net Pension Liability	4,412,061	10,662,137	(6,250,076)
Deferred Outflows Related to OPEB Liability	1,947,797	-	1,947,797
<b>Total Deferred Outflows of Resources</b>	<b>8,944,313</b>	<b>13,445,396</b>	<b>(4,501,083)</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 279,657,404</b>	<b>\$ 249,126,664</b>	<b>\$ 30,530,740</b>

(Continued)

(Continued)

(Continued)

The accompanying notes are an integral part of these financial statements.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**STATEMENTS OF NET POSITION (CONTINUED)**  
**SEPTEMBER 30, 2018 AND 2017**

NET POSITION AND LIABILITIES			
	2018	Restated 2017	Increase/ (Decrease)
<b>Current Liabilities</b>			
Unrestricted Current Liabilities			
Accounts Payable	\$ 4,899,112	\$ 22,824,839	\$ (17,925,727)
Accrued Expenses	3,219,567	997,767	2,221,800
Accrued Interest - Line Of Credit	246,718	-	246,718
Compensated Absences and Accrued Wages	931,179	2,049,559	(1,118,380)
Accrued Cost of Power Adjustment	7,420,939	3,546,536	3,874,403
Unearned Revenues	153,642	545,869	(392,227)
Total Unrestricted Current Liabilities	16,871,157	29,964,570	(13,093,413)
Restricted Current Liabilities			
Current Portion of Long-Term Debt	1,716,843	1,815,705	(98,862)
Accounts Payable	1,288,034	588,080	699,954
Accrued Interest	7,878,759	8,719,623	(840,864)
Security Deposits Payable	121,681	157,156	(35,475)
Due to Customers	4,740,372	4,703,861	36,511
Total Restricted Current Liabilities	15,745,689	15,984,425	(238,736)
<b>Total Current Liabilities</b>	32,616,846	45,948,995	(13,332,149)
<b>Non Current Liabilities</b>			
Compensated Absences	929,859	1,087,122	(157,263)
Accrued OPEB Liability	57,269,047	25,495,662	31,773,385
Revenue Bonds	44,272,209	45,989,052	(1,716,843)
Line of Credit	42,500,000	-	42,500,000
Accrued Interest	-	7,254,058	(7,254,058)
Net Pension Liability	24,664,946	31,645,005	(6,980,059)
<b>Total Non Current Liabilities</b>	169,636,061	111,470,899	58,165,162
<b>Total Liabilities</b>	202,252,907	157,419,894	44,833,013
<b>Deferred Inflows of Resources</b>			
Deferred Inflows Related to Net Pension Liability	2,531,111	200,046	2,331,065
Deferred Inflows Related to OPEB Liability	22,504,495	-	22,504,495
<b>Total Deferred Inflows of Resources</b>	25,035,606	200,046	24,835,560
<b>Net Position</b>			
Net Investment in Capital Assets	132,753,278	117,010,466	15,742,812
Restricted for:			
FMPA Working Capital Assessment	2,266,539	2,266,539	-
Renewal and Replacement	7,116,252	6,347,708	768,544
Unrestricted	(89,767,178)	(34,117,989)	(55,649,189)
<b>Total Net Position</b>	52,368,891	91,506,724	(39,137,833)
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	\$ 279,657,404	\$ 249,126,664	\$ 30,530,740

The accompanying notes are an integral part of these financial statements.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<b>2018</b>	<b>Restated 2017</b>	<b>Variance</b>
<b>Operating Revenues</b>	\$ 87,635,933	\$ 92,694,656	\$ (5,058,723)
<b>Operating Expenses</b>			
Purchased Power	44,486,246	51,340,755	(6,854,509)
Transmission Expenses	7,681,566	7,167,798	513,768
Distribution Expenses	8,558,458	7,681,620	876,838
Customer Accounts and Collection Expenses	2,062,154	2,117,621	(55,467)
Administrative and General Expenses	7,340,530	16,160,599	(8,820,069)
Depreciation	7,531,883	7,434,250	97,633
Taxes Other than Income Taxes	2,208,970	2,315,656	(106,686)
<b>Total Operating Expenses</b>	79,869,807	94,218,299	(14,348,492)
<b>Operating Income</b>	7,766,126	(1,523,643)	9,289,769
<b>Non-Operating Revenue and (Expenses)</b>			
Interest Income	955,422	576,858	378,564
Miscellaneous Non-Operating Revenue	2,332,505	2,292,265	40,240
Payment to City of Key West	(422,850)	(428,851)	6,001
Interest on Debt	(2,706,392)	(3,289,035)	582,643
Interest on Line of Credit	(778,191)	-	(778,191)
Interest on Customer Deposit	-	(791)	791
Amortization of Bond (Discount)/Premium	323,884	323,885	(1)
Gain/(Loss) on Disposal of Assets	(149,011)	(263,283)	114,272
Net Depreciation in Fair Value of Investments	(193,221)	(217,808)	24,587
Grant Revenue	12,149,424	17,201,796	(5,052,372)
Grant Expense	(580,559)	(281,825)	(298,734)
<b>Total Non-Operating Revenue and (Expenses)</b>	10,931,011	15,913,211	(4,982,200)
<b>Change in Net Position</b>	18,697,137	14,389,568	4,307,569
<b>Net Position, Beginning of Year</b>	91,506,724	77,117,156	14,389,568
Prior Period Adjustment of OPEB Liability	(57,834,970)	-	(57,834,970)
<b>Restated Net Position at Beginning of Year</b>	33,671,754	77,117,156	(43,445,402)
<b>Net Position, End of Period</b>	\$ 52,368,891	\$ 91,506,724	\$ (39,137,833)

The accompanying notes are an integral part of these financial statements.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>Restated 2017</u>
<b>Cash Flows Provided (Used) by Operating Activities</b>		
Cash Received from Customers	\$ 89,990,842	\$ 89,171,465
Cash Payments to Suppliers for Goods and Services	(60,454,628)	(50,257,368)
Cash Payments to Employees for Services	(11,563,131)	(11,160,365)
Cash Received for Deposits	628,329	515,685
Cash Deposits Refunded	(627,293)	(555,023)
Cash Received from Other Operating revenue	1,940,278	2,447,450
Cash Received from Investments	497,184	10,440,020
Cash Payments for Hurricane Expenses	<u>(580,559)</u>	<u>(281,825)</u>
<b>Net Cash Provided by Operating Activities</b>	19,831,022	40,320,039
<b>Cash Flows (Used) by Non-Capital Financing Activities</b>		
Cash Paid to City of Key West, Florida	<u>(422,850)</u>	<u>(428,851)</u>
<b>Net Cash (Used) by Non-Capital Financing Activities</b>	<u>(422,850)</u>	<u>(428,851)</u>
<b>Cash Flows Provided (Used) by Capital and Related Financing Activities</b>		
Principal Paid/Refunded on Long-Term Debt	(1,815,705)	(1,923,423)
Interest Paid on Revenue Bond Maturities & Line of Credit	(10,810,099)	(9,230,253)
Proceeds from Line of Credit	42,500,000	-
Acquisitions and Construction of Capital Assets	(21,629,893)	(28,748,624)
Proceeds from Disposal of Assets	<u>197,247</u>	<u>95,517</u>
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>8,441,550</u>	<u>(39,806,783)</u>
<b>Cash Flows Provided by Investing Activities</b>		
Net Appreciation on Investment	<u>775,869</u>	<u>354,319</u>
<b>Net Cash Provided by Investing Activities</b>	<u>775,869</u>	<u>354,319</u>
<b>Net Increase in Cash and Cash Equivalents</b>	28,625,591	438,724
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>10,541,240</u>	<u>10,102,516</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 39,166,831</u>	<u>\$ 10,541,240</u>

The accompanying notes are an integral part of these financial statements.



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

Reconciliation of Operating Income to  
Net Cash Provided by Operating Activities

	<u>2018</u>	<u>Restated 2017</u>
<b>Operating Income</b>	\$ 7,766,126	\$ (1,523,643)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>		
Depreciation	7,531,883	7,434,250
Provision for Uncollectible Accounts	76,953	199,233
Amortization of Deferred Revenue	(545,869)	(390,684)
Receipt of Deferred Revenue	153,642	545,869
Grant Expense (Hurricane)	(580,559)	(281,825)
Other Non-Operating Sources of Revenue	2,332,505	2,292,265
<b>Changes in Assets and Liabilities</b>		
(Increase)Decrease in Accounts Receivable	10,949,392	(4,052,163)
(Increase) Decrease in Plant Material & Inventory	(1,505,516)	472,128
Decrease in Prepaid Expenses	10,163,217	201,670
Decrease in Investment	497,184	10,440,020
Increase (Decrease) in Accounts Payable	(21,829,532)	23,961,140
Increase in Accrued Expenses	4,820,560	1,061,117
Increase (Decrease) in Customer Deposits	36,511	(23,278)
(Decrease) in Security Deposits	<u>(35,475)</u>	<u>(16,060)</u>
<b>Total Adjustments</b>	<u>12,064,896</u>	<u>41,843,682</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 19,831,022</u>	<u>\$ 40,320,039</u>

Supplemental Schedule of Non-Cash Financing, Capital and Investing Activities

	<u>2018</u>	<u>2017</u>
Deferred Outflows related to Net Pension Liability	\$ 6,250,076	\$ (132,365)
Deferred Outflows related to OPEB Liability	\$ (1,947,797)	\$ -
Amortization of Bond Premium	\$ 323,884	\$ 323,885
Net Depreciation in Fair Value of Investments	\$ (193,221)	\$ (217,808)

The accompanying notes are an integral part of these financial statements.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and the presentation of the financial report of the Utility Board of the City of Key West, Florida (the Board) d/b/a Keys Energy Services (KEYS) have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board (GASB). The GASB embodies the official pronouncements previously issued by the National Council on Governmental Accounting (NCGA). The following is a summary of the significant accounting policies.

**Entity Definition** – KEYS was created by an Act of the Florida Legislature to manage, operate and maintain the electric utility servicing the citizens of the City of Key West, Florida (the City) and the lower Florida Keys. KEYS is the successor of the electric public utility once owned by the City and was given all powers and rights necessary to manage, operate, maintain, control, and extend the electric utility property owned by the City of Key West at the time of its creation. The Board is composed of five members who are elected every four years. The members select the Chairman during the Organizational Meeting following an election. The General Manager & CEO of KEYS serves as Secretary to the Board and is responsible for the day-to-day operations of KEYS. KEYS is not a component unit of the City.

On June 6, 2017, the State of Florida officially ratified changes to the Enabling Act that governs the Utility Board and KEYS regarding the election of Board members. The changes include:

- A Utility Board consisting of five-members, with three members having residency requirements in the City of Key West (precincts 1-10) and two members having residency requirements in unincorporated Monroe County from Stock Island to the north easternmost end of the Seven-Mile Bridge (precincts 11-17). Previously the five-member Utility Board could only be comprised of residents of the City of Key West.
- A Utility Board elected by all voters from Key West to the north easternmost end of the Seven-Mile Bridge (precincts 1 – 17). Previously the Utility Board was elected only by residents of the City of Key West.

The changes will take place with the 2018 and 2020 election cycles.

**Measurement Focus** – The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. KEYS' operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included on the balance sheet. Operating statements present increases (e.g. revenue) and decreases (e.g. expenses) in net position.

**Basis of Accounting** – KEYS' financial statements are accounted for based on generally accepted accounting principles (GAAP) using the Federal Energy Regulatory Commission (FERC) chart of accounts, which are peculiar to utilities. Revenues are recognized in the period earned and expenses are recognized in the period incurred, regardless of the timing of the related cash flows.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Budget** – In accordance with KEYS’ enabling Legislation, the Utility Board holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlay. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers and an analysis of variances report is prepared quarterly. During the year, staff can make amendments within the operating and capital budget that do not change the total budget provided that the change is within the same limitations established by Resolution adopted by KEYS. The Utility Board approves all other budget changes. Budget appropriations lapse at each fiscal year-end except for the Capital Budget. The budget is adopted on a basis consistent with KEYS’ basis of accounting.

**Prior-Period Information** - Certain prior-year amounts have been reclassified to conform to the current year’s financial statement presentation.

**Cash and Investments** – Cash and investments in U.S. Government Securities are recorded at cost or amortized cost. Amortized cost does not significantly vary from market value. Any other investments are stated at fair value in accordance with GASB 31 and GASB 72. Florida Statutes govern KEYS’ investment policies. These policies are described in more detail in Note 3 of Notes to Financial Statements.

**Revenue** – Revenue is recognized based on monthly route billings to customers. Effective Fiscal Year 2014 revenue is accrued for services supplied but unbilled at the end of the fiscal year.

**Restatement of Prior Year Financial Statements** – It has been determined that the proper accounting treatment for hurricane restoration expenditures is to record per KEYS normal capitalization policy. Grant expense was reduced by \$19.4 million and Construction Work in Progress increased by \$19.4 million, increasing Net Position at September 30, 2017.

**Bond Premiums/Discount and Issue Costs** – Bond discounts and premiums are capitalized and amortized over the term of the related indebtedness. Upon implementation of GASB 65, KEYS expensed all unamortized bond issue costs.

**Property, Plant and Equipment** – Property, Plant and Equipment is stated at cost. Transmission, Distribution, and General Plant are defined by KEYS as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. Property, Plant and Equipment is depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of the electric plant assets are as follows:

Generation Plant	25 Years
Transmission Plant	31-45 Years
Distribution Plant	20-45 Years
General Plant	5-40 Years

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The following is a summary of property, plant and equipment for the year ended September 30, 2018:

	<b>Restated Balance 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 2018</b>
Utility Plant in Service:				
Generation Plant	\$ 519,269	\$ -	\$ -	\$ 519,269
Transmission Plant	87,073,138	1,891,529	(25,391)	88,939,276
Distribution Plant	111,185,436	39,819,844	(1,625,063)	149,380,217
General Plant	31,007,902	5,608,049	(747,452)	35,868,499
Total Utility Plant in Service	<u>229,785,745</u>	<u>47,319,422</u>	<u>(2,397,906)</u>	<u>274,707,261</u>
Other Plant in Service				
Other - Intangible	220,264	-	-	220,264
Total Other Plant in Service	<u>220,264</u>	<u>-</u>	<u>-</u>	<u>220,264</u>
Total Plant in Service	<u>230,006,009</u>	<u>47,319,422</u>	<u>(2,397,906)</u>	<u>274,927,525</u>
Accumulated Depreciation:				
Generation Plant	-	-	-	-
Transmission Plant	(46,064,408)	(2,347,784)	25,391	(48,386,801)
Distribution Plant	(46,075,389)	(3,977,471)	1,310,478	(48,742,382)
General Plant	(11,966,109)	(1,206,628)	715,779	(12,456,958)
Total Accumulated Depreciation	<u>(104,105,906)</u>	<u>(7,531,883)</u>	<u>2,051,648</u>	<u>(109,586,141)</u>
<b>Net Utility Plant in Service</b>	<b><u>\$ 125,900,103</u></b>	<b><u>\$ 39,787,539</u></b>	<b><u>\$ (346,258)</u></b>	<b><u>\$ 165,341,384</u></b>
Construction Work in Progress	<b><u>\$ 27,861,186</u></b>	<b><u>\$ 22,329,847</u></b>	<b><u>\$ (47,319,422)</u></b>	<b><u>\$ 2,871,611</u></b>

The following is a summary of property, plant and equipment for the year ended September 30, 2017:

	<b>Balance 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Restated Balance 2017</b>
Utility Plant in Service:				
Generation Plant	\$ 519,269	\$ -	\$ -	\$ 519,269
Transmission Plant	85,978,939	1,094,199	-	87,073,138
Distribution Plant	107,749,931	5,371,588	(1,936,083)	111,185,436
General Plant	30,774,934	406,125	(173,157)	31,007,902
Total Utility Plant in Service	<u>225,023,073</u>	<u>6,871,912</u>	<u>(2,109,240)</u>	<u>229,785,745</u>
Other Plant in Service				
Other - Intangible	220,264	-	-	220,264
Total Other Plant in Service	<u>220,264</u>	<u>-</u>	<u>-</u>	<u>220,264</u>
Total Plant in Service	<u>225,243,337</u>	<u>6,871,912</u>	<u>(2,109,240)</u>	<u>230,006,009</u>
Accumulated Depreciation:				
Generation Plant	-	-	-	-
Transmission Plant	(43,758,976)	(2,305,432)	-	(46,064,408)
Distribution Plant	(43,786,194)	(3,874,428)	1,585,233	(46,075,389)
General Plant	(10,876,927)	(1,254,389)	165,207	(11,966,109)
Total Accumulated Depreciation	<u>(98,422,097)</u>	<u>(7,434,249)</u>	<u>1,750,440</u>	<u>(104,105,906)</u>
<b>Net Utility Plant in Service</b>	<b><u>\$ 126,821,240</u></b>	<b><u>\$ (562,337)</u></b>	<b><u>\$ (358,800)</u></b>	<b><u>\$ 125,900,103</u></b>
Construction Work in Progress	<b><u>\$ 7,442,379</u></b>	<b><u>\$ 27,290,719</u></b>	<b><u>\$ (6,871,912)</u></b>	<b><u>\$ 27,861,186</u></b>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

KEYS' policy concerning capitalized interest costs is in accordance with Statement of Financial Accounting Standards No. 62, which requires the capitalization of interest costs of restricted tax-exempt borrowings less any interest earned on investment funds during the construction period. For the years ended 2018 and 2017, there were no capitalized interest costs.

**Inventory** – Inventories are stated at cost using the first-in/first out (FIFO) method. The cost of inventory is recorded as expense when consumed rather than when purchased.

**Compensated Absences and Accrued Wages** – KEYS employees are granted sick and vacation leave in varying amounts in accordance with administrative policies. Employees may accumulate unused sick and vacation leave. The number of sick and vacation days allowed to accumulate is subject to limitations as set forth in KEYS policies. Vacation leave is payable to employees upon termination or retirement, or up to 40 hours per year of vacation leave may be paid out each calendar year. Sick leave, subject to policy limitations, is payable upon retirement to employees with 20 or more years of service. Compensation expense is recorded for unused vacation and sick leave in the year in which the vacation and sick leave is earned in accordance with GASB Statement No. 16. Bargaining Unit employees may convert a maximum of forty (40) overtime hours in a contract year to compensatory leave. Compensatory leave not used within the allotted time period will be paid. Accrued wages are employee wages earned but not yet paid.

Balances at September 30, 2018 are as follows:

	<b>Balance 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 2018</b>
Vacation Leave	\$ 543,351	\$ 138,466	\$ (166,731)	\$ 515,086
Compensatory Leave	119,615	17,961	(119,615)	17,961
Sick Leave	991,823	93,357	(395,652)	689,528
Accrued Wages	1,481,892	14,804,417	(15,647,846)	638,463
<b>Total</b>	<b>\$ 3,136,681</b>	<b>\$ 15,054,201</b>	<b>\$(16,329,844)</b>	<b>\$ 1,861,038</b>

Current and Long Term balances at September 30, 2018 are as follows:

	<b>Current Liability</b>	<b>Long-Term Liability</b>	<b>Total</b>
Vacation Leave	\$ 72,266	\$ 442,820	\$ 515,086
Compensatory Leave	17,961	-	17,961
Sick Leave	202,489	487,039	689,528
Accrued Wages	638,463	-	638,463
<b>Total</b>	<b>\$ 931,179</b>	<b>\$ 929,859</b>	<b>\$ 1,861,038</b>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Compensated Absences and Accrued Wages (continued)**

Balances at September 30, 2017 are as follows:

	<b>Balance 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 2017</b>
Vacation Leave	\$ 538,708	\$ 70,319	\$ (65,676)	\$ 543,351
Compensatory Leave	14,847	119,615	(14,847)	119,615
Sick Leave	1,037,805	106,813	(152,795)	991,823
Accrued Wages	634,280	14,392,161	(13,544,549)	1,481,892
<b>Total</b>	<b>\$ 2,225,640</b>	<b>\$ 14,688,908</b>	<b>\$(13,777,867)</b>	<b>\$ 3,136,681</b>

Current and Long Term balances at September 30, 2017 are as follows:

	<b>Current Liability</b>	<b>Long-Term Liability</b>	<b>Total</b>
Vacation Leave	\$ 76,232	\$ 467,119	\$ 543,351
Compensatory Leave	119,615	-	119,615
Sick Leave	371,820	620,003	991,823
Accrued Wages	1,481,892	-	1,481,892
<b>Total</b>	<b>\$ 2,049,559</b>	<b>\$ 1,087,122</b>	<b>\$ 3,136,681</b>

**Operating Revenues and Expenses** – Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with KEYS principal ongoing operations. The principal operating revenues of KEYS are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Interest Expense** – Interest expense for the years ended September 30, 2018 and 2017 is summarized as follows:

	<b>2018</b>	<b>2017</b>
Total Bond Interest	2,706,392	3,289,035
Interest on Line of Credit	778,191	-
Interest on Customer Deposits	-	791
<b>Total Interest Expense</b>	<b>\$ 3,484,583</b>	<b>\$ 3,289,826</b>

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Position** – Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of assets restricted by constraints that are externally imposed or are imposed by law.

Unrestricted – All other assets that do not meet the definition of “restricted for debt service” or “net investment in capital assets”.

**Income Taxes** – No provision for income taxes is reflected in the financial statements as KEYS is considered a unit of local government.

**Comparative Data/Reclassifications** – Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

**Deferred Outflows/Inflows of Resources** – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until that time. KEYS has three items that qualify for reporting in this category. One item is the loss on Refunding Series 2014 bond. The other deferred outflows are related to net pension liability and OPEB liability and are the differences between actual and expected experience on liabilities, change in assumptions, contributions made after measurement date, and the net difference between projected and earnings on the pension plan investments.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents resources for a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. KEYS has two items that qualify for reporting in this category. These amounts relate to the net pension liability and OPEB liability and are the difference between actual and expected experience, differences in projected and actual earnings on investments and changes in assumptions.

**Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the Retirement System for General Employees (the Plan) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefits terms. Investments are reported at fair value.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 2 – OTHER PROPERTY AND INVESTMENTS**

**Restricted Assets** – Certain assets consisting of cash, cash equivalents, and investments are restricted by bond resolutions; additionally, some assets have been classified as restricted in accordance with FERC. KEYS is required by revenue bond covenants to maintain a debt service reserve account in the amount of its highest debt service, which is satisfied by a debt surety bond.

KEYS' Restricted Cash and Cash Equivalents as of September 30, 2018 and 2017, respectively consist of the following:

	<u>2018</u>	<u>2017</u>
Sinking Fund	\$ 9,270,002	\$ -
Renewal and Replacement Fund	1,616,252	847,709
Construction Fund Debt Reserve	88,456	32,780
Revenue Fund - LOC BOA 10/17	7,947,820	-
Steam Plant Security Deposit	-	115,584
No Name Key Escrow	105,181	27,130
<b>Total</b>	<b><u>\$ 19,027,711</u></b>	<b><u>\$ 1,023,203</u></b>

KEYS' Restricted Investments as of September 30, 2018 and 2017, respectively consist of the following:

	<u>2018</u>	<u>2017</u>
Investments - Current	<b><u>\$ 1,320,087</u></b>	<b><u>\$ 1,096,480</u></b>
Investments - Non-Current	\$ 8,129,127	\$ 8,408,604
Interest Receivable-Investments	4,066	3,709
Total	<b><u>\$ 8,133,193</u></b>	<b><u>\$ 8,412,313</u></b>

**Restricted Deposits** – Florida Municipal Power Agency (FMPA) requires a working capital contribution. At September 30, 2018 this balance remained unchanged at \$2,266,539.

**NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash and Cash Equivalents:**

KEYS' total cash and cash equivalents as of September 30, 2018 and 2017 respectively consist of the following:

	<u>2018</u>	<u>2017</u>
Cash	\$ 10,290,430	\$ 625,073
Cash Equivalents:		
Repurchase agreements	28,876,401	9,916,167
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 39,166,831</u></b>	<b><u>\$ 10,541,240</u></b>

All cash and cash equivalents are fully liquid.



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**NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)**

**Investments:**

Investment Balances (including applicable interest receivable) at September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted Short Term	\$ 3,468,401	\$ 2,460,931
Unrestricted Long Term	1,287,730	2,732,862
Restricted Short Term	1,355,147	1,131,349
Restricted Long Term	8,133,193	8,412,313
<b>Total</b>	<b><u>\$ 14,244,471</u></b>	<b><u>\$ 14,737,455</u></b>

Investments by Category at September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Corporate Bonds	\$ 4,763,066	\$ 4,976,567
Government Bonds	9,288,282	9,371,268
Pooled Funds & Mutual Funds	193,123	389,620
<b>Total</b>	<b><u>\$ 14,244,471</u></b>	<b><u>\$ 14,737,455</u></b>

State Statutes govern KEYS' investment policies. In addition, KEYS has its own investment practices.

Monies must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer. Permissible investments include the obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, commercial paper, repurchase agreements, and other securities meeting KEYS' criteria for risk and return.

Collateral is provided for demand deposits and certificates of deposit through the Florida Security for Public Deposits Act. This Act established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral. Under the Act, the qualified public depository must pledge at least 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance. Additional collateral, up to a maximum of 125%, may be required if deemed necessary under the conditions set forth in the Act. Eligible collateral consists of obligations of the United States and its agencies and obligations of states and their political subdivisions, and unaffiliated corporations.

Obligations pledged to secure deposits must be delivered to the State Treasurer or, with the approval of the State Treasurer, to a bank, savings association, or trust company provided a power of attorney is delivered to the Treasurer. On a monthly basis, the State Treasurer determines that the collateral has a market value adequate to cover the deposits under the provisions of the Act.

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**NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)**

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses resulting from rising interest rates, KEYS investment policy establishes benchmarks based on credit quality and duration.

At September 30, 2018 the Effective Duration of KEYS’ investment portfolio was characterized as follows:

<u>Investment</u>	<u>2018</u>	
	<u>Fair Value</u>	<u>Effective Duration</u>
Sawgrass		
Cash and Cash Equivalents	\$ 107,775	0.00
Federal Instrumentalities	395,188	0.09
Corporate Bonds	3,588,425	0.66
U.S. Government Securities	3,123,027	0.58
BB&T		
Cash and Cash Equivalents	14,658	0.00
U.S. Treasuries	316,420	2.26
Government Agency	164,577	2.63
Corporate Bonds	923,891	2.37
Yankee Corporate Bonds	269,111	1.89
Municipal Bonds	324,513	1.35
Wells Fargo		
US Government Securities	1,032,611	0.75
Raymond James		
U.S. Treasuries	3,984,275	0.88
	<u>\$ 14,244,471</u>	

Credit Risk – KEYS general investment policy is to apply the prudent person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general avoid speculative investments. KEYS investment policy allows investments in U. S. Treasury, U. S. Agencies, and any U. S. state, certificates of deposits, repurchase agreements, and units of participation in the State of Florida Local Government Surplus Trust Fund. In addition to these, KEYS also allows investment in commercial paper which is rated at the time of purchase in the single highest classification by Moody’s and S&P and does not mature more than 270 calendar days after the date of purchase and agreements with a bank or insurance company which has an unsecured, uninsured and unguaranteed obligation (or claims-paying ability) rated “A3” or better by Moody’s and a rating of “A-” or better by Standard & Poor’s.

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**NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)**

At September 30, 2018 KEYS investments had the following credit risk allocation:

Rating	US Government		Municipal Bonds		Corporate Bonds		Total Portfolio	
	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%
AAA	\$ 9,016,098	100%	\$ 110,572	34.1%	\$ -	0.0%	\$ 9,126,670	64.6%
AA	-	-	213,941	65.9%	162,121	3.4%	376,062	2.7%
A	-	-	-	0.0%	4,619,306	96.6%	4,619,306	32.7%
BBB	-	-	-	0.0%	-	0.0%	-	0.0%
BB	-	-	-	0.0%	-	0.0%	-	0.0%
Total	<u>\$ 9,016,098</u>	100%	<u>\$ 324,513</u>	100.0%	<u>\$ 4,781,427</u>	100.0%	14,122,038 *	100.0%

\* Portfolio also includes Cash & Cash Equivalents

122,433
<u>\$ 14,244,471</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, KEYS deposits may not be returned. KEYS does not have a deposit policy for custodial risk. As of September 30, 2018 and 2017, the bank balances were \$30,093,894 and \$10,566,623 respectively. The bank balances were covered by federal depository insurance and for the amount in excess of such federal depository insurance, by the State of Florida’s Security of Public Deposits Act. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act.

In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of securities pledged by the depository are assessed against the other qualified public depositories of the same type as the depository in default.

Fair Value Measurements - KEYS holds investments that are measured at fair value on a recurring basis. KEYS categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

KEYS has the following recurring fair value measurements as of September 30, 2018:

- US Treasury securities of \$7,496,030 are valued using quoted market prices provided by third party custodian (Level 1 inputs). Excludes interest receivable.
- US Agency based securities, Corporate, and Municipal bonds of \$6,674,280 are valued using quoted market prices provided by third party custodian statements (Level 2 inputs). Excludes interest receivable.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 4 – UNRESTRICTED NON-CURRENT ASSETS**

**Long Term Lease Receivable – Key West Steam Plant**

The Key West Steam Plant was decommissioned in 1991. In Fiscal Year 2005 a developer received all the permitting and financing to begin construction to redevelop the Steam Plant site. The Utility Board executed two 99-year lease agreements in 2005: one with Steam Plant Condominiums, LLC for 19 luxury condominiums, and one with Old Town Key West Development, LLC for 38 affordable housing units. Construction was complete in 2008.

At September 30, 2017 KEYS had \$7,033,396 in Lease Receivables recorded related to the Key West Steam Plant property.

- 1) The base rent of the luxury units for \$7,033,309; \$100,000 per year adjusted annually for CPI, monthly payments began May 1, 2008. The amount of the annual payment was \$114,841 effective May 1, 2017.
- 2) The rent for the affordable housing units of \$87, at \$1 per year.

On January 10, 2018 the Utility Board approved a motion to sell the property associated with Steam Plant Condominiums, LLC for an agreed upon price of \$7,250,000. On April 2, 2018 proceeds of \$7,250,000 were received and applied to the outstanding Lease Receivable with the excess recorded as income.

**Other Long Term Lease Receivable** – In addition to the payments related to the 99 year lease, the Lessee is to pay the Lessor 5% of the amount of the total sales price of all Market Rate Units in excess of \$22,325,000. All units were sold as of March 2015. KEYS has recorded a receivable in the amount of \$301,850 related to the percentage rent due. However, due to the financial position of the developer and the uncertainty related to this receivable, there is a corresponding 100% reserve on bad debt on this amount.

**Long Term Note Receivable**

On January 1, 2011, the Revised, Amended, and Revised Capacity and Energy Sales Contract with FMPA became effective. This and the other negotiated agreements of the parties resulted in a True All-Requirements Project (TARP). Under the terms of this contract FMPA purchased all generation assets and assumed operational control and ownership risk for KEYS Stock Island generating units. KEYS retains ownership of the Stock Island land.

The contract expires October 1, 2024. FMPA will utilize the generating units to provide capacity and energy to the All-Requirements Power Supply Project in exchange for fixed payments of \$670,000 per year for ten years. At the end of ten years full ownership of the generating units will transfer to FMPA.

The present value of the note receivable relating to the TARP agreement is a total of \$1,263,684 with annual payments of \$670,000 to be paid each January 1 through 2020. The difference in the amount received and the present value of the receivable will be recorded as interest income.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 4 – UNRESTRICTED NON-CURRENT ASSETS (continued)**

Summary of the Note Receivable is as follows:

<u>Year</u>	<u>Receivable</u>		
2019	619,453	Note Receivable - Current	619,453
2020	644,231	Note Receivable - Long Term	644,231
<b>Total</b>	<b><u>\$ 1,263,684</u></b>	<b>Total Note Receivable</b>	<b><u>\$ 1,263,684</u></b>

**NOTE 5 – LONG-TERM DEBT**

Net revenues, as defined for purposes of bond security, is all income or earnings derived from the operation of KEYS, except Capital Improvement Charges, investment earnings on Construction Funds, and transfers to the Rate Stabilization Fund, less costs of operation and maintenance which do not include capital expenditures, extraordinary repairs, amortization of the premium or discount of debt obligations, payments under Unconditional Output Contracts, depreciation, or unfunded OPEB or pension expense. See Note 7 in Notes to Financial Statements for the rate covenant pertaining to revenues.

**Summary of Debt Service Funding Requirements to Maturity**

<b><u>Payment 12 mos ending October 1.</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2019	2,300,000	1,882,888	4,182,888
2020	2,415,000	1,767,888	4,182,888
2021	2,540,000	1,647,138	4,187,138
2022	2,665,000	1,520,138	4,185,138
2023	2,795,000	1,386,887	4,181,887
2024-2028	16,140,000	4,762,336	20,902,336
2029-2032	11,510,000	1,031,325	12,541,325
	<b><u>\$ 40,365,000</u></b>	<b><u>\$ 13,998,600</u></b>	<b><u>\$ 54,363,600</u></b>
2018	\$ 1,391,241		
	<b><u>\$ 41,756,241</u></b>		
Premium, series 2014	4,232,811		
<b>Total</b>	<b><u>\$ 45,989,052</u></b>		

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 5 – LONG-TERM DEBT (continued)**

Prior to the due date of each series of revenue bonds, KEYS is required to set aside sufficient funds in equal monthly amounts to retire the matured principal amounts.

Changes in Long-Term Debt during FY2018 are as follows:

	<b>September 30, 2017</b>	<b>Additions</b>	<b>Retired</b>	<b>September 30, 2018</b>
Series 1991, net	\$ 2,881,345	\$ -	\$ 1,490,104	\$ 1,391,241
Series 2014, net	44,923,412	-	325,601	44,597,811
<b>Total</b>	<b><u>\$47,804,757</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,815,705</u></b>	<b><u>\$ 45,989,052</u></b>

Changes in Long-Term Debt during FY2017 are as follows:

	<b>September 30, 2016</b>	<b>Additions</b>	<b>Retired</b>	<b>September 30, 2017</b>
Series 1991, net	\$ 4,479,166	\$ -	\$ 1,597,821	\$ 2,881,345
Series 2014, net	45,249,014	-	325,602	44,923,412
<b>Total</b>	<b><u>\$49,728,180</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,923,423</u></b>	<b><u>\$ 47,804,757</u></b>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 5 – LONG-TERM DEBT (continued)**

**Revenue Bonds:**

Electric System Refunding Revenue Bonds, Series 1991, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2017 to October 1, 2018 in installments of various amounts, bearing interest at rates from 7.05% to 7.10%, net of discount

Electric System Refunding Revenue Bonds, Series 2014 collateralized by Net Revenues and certain Reserve funds, payable October 1, 2019 to October 1, 2031 in installments of various amounts, bearing interest at rates from 3.0% to 5.00%

Net Original Premium, amortized on the straight line basis over the term of the Series 2014 Refunding Revenue Bonds

Series 2014, net

**Total Long-Term Debt**

Less Current Portion

Net Long-Term Debt

<u>2018</u>	<u>2017</u>
\$ 1,391,241	\$ 2,881,345
40,365,000	40,365,000
4,232,811	4,558,412
<u>44,597,811</u>	<u>44,923,412</u>
<b>45,989,052</b>	<b>47,804,757</b>
1,716,843	1,815,705
<u>\$ 44,272,209</u>	<u>\$ 45,989,052</u>

On October 8, 2014, The Utility Board approved Springing Master Bond Resolution #797. A resolution amending and restating in its entirety the Original Bond Resolution 532 which became effective on October 1, 2018.

On October 8, 2014, The Utility Board approved Resolution #798 and Issuance of Electric System Refunding Revenue Bonds Series 2014 for \$40,365,000. This refunding and restructuring of the Series 2006 Bonds resulted in an aggregate debt service of approximately \$11.1 million for FY2015-FY2018 and decreases to approximately \$4.2 million in FY2019-FY2031. KEYS will realize an actual cash flow savings of debt service payments over the life of the bonds of approximately \$3.0 million, with a net present value of \$2.2 million.

**NOTE 6 – PRIOR YEAR DEFEASANCE OF DEBT**

During 1986, 1987, 1991, 1995, 2000, 2001, and 2014 KEYS defeased certain revenue bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in KEYS' financial statements. At September 30, 2018, \$798,609 of bonds outstanding relative to the 1988 issue is considered defeased.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 7 – RATE COVENANT**

KEYS has agreed to establish and revise rates such that revenues will be sufficient to pay 100% of its costs of operations and maintenance (excluding unfunded OPEB and unfunded pension liabilities), all required reserve payments, and 125% of the principal and interest becoming due on all outstanding bonds.

**NOTE 8 – PENSION PLAN**

**General Information About the Pension Plan:**

**Plan Description** – The Retirement System for General Employees (the Plan) is a single-employer defined benefit pension plan administered by the Board of Trustees of the Plan. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. The Plan was created by resolution of the Utility Board, the resolution assigns the authority to establish and amend its provisions to the Utility Board.

**Benefits Provided** – For employees hired on or before May 31, 2010, the annual retirement benefit shall equal 2.4% of average final salary (AFS) times years of credited service, where AFS equals the highest annual basic compensation received during a period of the five highest years out of the ten years of service immediately preceding retirement. At September 30, 2018, 82 current employees and board members are participating under these terms.

For employees hired on or after June 1, 2010, the annual retirement benefit shall equal 2.0% of career average compensation times years of credited service, where career average compensation equals the average of the pensionable earnings received by a member from date of participation to termination of service. At September 30, 2018, 46 current employees and board members are participating under these terms.

Plan members hired on or before November 13, 2008 who have attained the earlier of age 60 or completion of 30 years of service with the Utility Board are entitled to retirement benefits. Plan members hired after November 13, 2008 who have attained the earlier of age 60 with 10 years of service or completion of 30 years of service with the Utility Board are entitled to retirement benefits.

Cost of living adjustments are automatically provided to members and beneficiaries. Effective January 1, 2001, the annual cost of living increase has been 3.0%.

**Participants Covered** – At September 30, 2018 the following participants were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	186
Inactive employees entitled to but not yet receiving benefits	22
Active employees & Board Members	<u>128</u>
Total Participants Covered	<u><b>336</b></u>



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 8 – PENSION PLANS (continued)**

**Contributions** – The contribution requirements of plan members and KEYS are established and may be amended by the Utility Board. Plan members have not been required to contribute to the Plan since October 1, 1985. KEYS is required to contribute at a rate based on the annual actuarial valuation, which indicates the minimum required contribution.

The minimum payment consists of payment of annual normal costs and amortization of the components of the unfunded actuarial accrued liability over various periods as prescribed by law. For the year ended September 30, 2018, KEYS contribution rate was 43.49% of covered payroll, with a contribution rate of 40.8% October 2017 thru December 2017 and 44.3% contribution rate January 2018 thru September 2018. The minimum required contribution rate of covered payroll would be adjusted to include any benefit changes approved by the Utility Board.

**Net Pension Liability:**

KEYS net pension liability for the Plan is measured as the total pension liability, less the Plan's fiduciary net position. Net pension liability was measured as of December 31, 2017 using the annual actuarial valuation as of January 1, 2018.

**Actuarial Assumptions** – The total pension liability was determined by an actuarial valuation as of January 1, 2018 using the following assumptions:

Inflation	2.75% per year
Payroll Growth Assumption	3.0% per year, but limited to average annual increase over most recent ten years (1.5%).
Investment Rate of Return	7.5%, net of investment expenses

For healthy male participants during employment, RP 2000 Combined Male Healthy Participant Mortality Table, with 50% White Collar/50% Blue Collar Adjustment and fully generational mortality improvements projected to each future decrement date with Scale BB. For healthy female participants during employment, RP 2000 Combined Female Healthy Participant Mortality Table, with White Collar Adjustment and fully generational mortality improvements projected to each future decrement date with Scale BB. For disabled male participants, RP 2000 Disabled Male Mortality Table, setback four years, without projected mortality improvements. For disabled female participants, RP 2000 Disabled Female Mortality Table, set forward two years, without projected mortality improvements.

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the five years ended December 31, 2012.

**Discount Rate** – A discount rate of 7.5% was used to measure the total pension liability. This discount rate was based on the long-term expected rate of return on Plan investments (net of investment expense) of 7.5%. The projection of cash flows used to determine this discount rate assumed member contributions will be made at the current contribution rate and employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 8 – PENSION PLANS (continued)**

Based on these assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension Liability:**

	Increase(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2016	\$ 112,561,577	\$ 80,916,572	\$ 31,645,005
Changes for the year:			
Service Cost	1,653,371	-	1,653,371
Interest	8,313,210	-	8,313,210
Benefit Changes	132,646	-	132,646
Difference Between Actual and Expected experience	(756,398)	-	(756,398)
Assumption Changes	113,197	-	113,197
Contributions - employer	-	3,860,513	(3,860,513)
Net investment income	-	12,634,539	(12,634,539)
Benefit Payments	(5,723,180)	(5,723,180)	-
Administrative Expense	-	(58,967)	58,967
Net changes	<u>3,732,846</u>	<u>10,712,905</u>	<u>(6,980,059)</u>
Balance at 12/31/2017	<u>\$ 116,294,423</u>	<u>\$ 91,629,477</u>	<u>\$ 24,664,946</u>

**Sensitivity of Net Pension Liability to Changes in the Discount Rate** – The following presents KEYS net pension liability calculated using the discount rate of 7.5%, as well as the net pension liability calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate.

Measurement date: 12/31/2017

	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.50%	7.50%	8.50%
NPL	\$ 39,464,878	\$ 24,664,946	\$ 12,476,271

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 8 – PENSION PLANS (continued)**

**Pension Plan Fiduciary Net Position** – Detailed information about the Plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report for the Retirement System of the General Employees of the Utility Board of the City of Key West, FL which includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement System for General Employees, P.O. Box 6100, Key West, FL 33041-6100 or on our website at [www.KeysEnergy.com](http://www.KeysEnergy.com).

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension** – For the year ended September 30, 2018, KEYS recognized pension expense \$5,650,548. At September 30, 2018 deferred outflows of resources and deferred inflows of resources related to pension were from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience on liabilities	\$ 165,183	\$ 552,153
Changes of assumptions or other inputs	1,072,726	-
Net difference between projected and actual earnings on pension plan investments	-	1,978,958
Contributions made after measurement date	3,174,152	-
Total	\$ 4,412,061	\$ 2,531,111

Deferred outflows of \$3,174,152 related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019.

Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized as pension expense as follows:

Year ending	Amount
9/30/2019	\$ 1,286,057
9/30/2020	3,467
9/30/2021	(1,255,153)
9/30/2022	(1,327,573)
9/30/2023	-
Thereafter	-

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 9 – LEASES**

Rent expense under cancelable operating leases related to vehicles, copiers, mailing equipment, and time clocks was \$357,632 and \$281,758 in 2018 and 2017, respectively.

**NOTE 10 – JOINT INVESTMENT**

**FKEC Transmission Agreement** – To provide the long-term transmission needs of both KEYS and the Florida Keys Electric Cooperative (FKEC), the parties entered into an agreement in which both KEYS and FKEC will maintain an appropriate ownership investment in the transmission line between the Monroe/Dade County line and the north end of the Seven Mile Bridge, at the north end of KEYS' service area. The Long Term Joint Investment Transmission Agreement (LTA) is effective for 40 years from its effective date of January 1, 1992, or until all property, comprising the transmission line has been disposed of and all termination costs have been paid, whichever occurs last.

The Transmission Agreement provides for the construction of future capital additions to the transmission system, which would be paid jointly by FKEC and KEYS based on allocation percentages. Once parity of investment is achieved under the Transmission Agreement, any subsequent investment deficiency requires the deficient party to pay a monthly penalty to the other party, based upon a formula set out in the Transmission Agreement, which is based in part on the non-deficient party's embedded cost of debt capital.

Since the joint investment does not constitute a separate legal entity and no joint debt was issued to fund this project, KEYS investment in these facilities is included as part of Utility Plant on KEYS' balance sheet.

Effective May 26, 2011, KEYS and FKEC amended the LTA to provide for cost sharing and other details related to the Keys Import Upgrades Project. FKEC, KEYS and FMPA agreed to share costs of this project because all three parties would derive benefits. Phase 1 of the project was completed in 2012 and increased the electrical import capacity from the mainland from 235 to 280 MW. Phase 2 of the project (series capacitor at the FKEC's Islamorada substation) was completed in 2015, bringing the total import capacity to 329 MW, which corresponds to the thermal rating of the lines.

**NOTE 11 – PURCHASED POWER COMMITMENTS**

**All Requirements Power Supply Project** – In July 1997, KEYS agreed to become a member of the Florida Municipal Power Agency (FMPA) All-Requirements Power Supply Project (the "All-Requirements Project" ARP) and began operations as a project participant effective April 1, 1998. On January 1, 2011, the ARP contract was restructured to become the Revised, Amended and Restated Capacity and Energy Sales Contract. Under the terms of this contract FMPA took over operational control and ownership risk for KEYS Stock Island generating units. FMPA has hired KEYS to maintain and operate the generating units through the Consolidated Operating and

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 11 – PURCHASED POWER COMMITMENTS (continued)**

Maintenance Contract for the Stock Island Generating Facility also dated January 1, 2011. KEYS retains ownership of the Stock Island land.

FMPA will utilize the generating units to provide capacity and energy to the All-Requirements Power Supply Project in exchange for \$670,000 per year for ten years to be paid by FMPA to KEYS, and the other negotiated agreements of the parties to affect a True All-Requirements Project (TARP). At the end of ten years full ownership of the units will transfer to FMPA.

Under the contractual arrangement with FMPA, KEYS has assigned all of its generating and firm purchased power resources to FMPA, and FMPA will serve all of KEYS' requirements.

Further, in the event that power cannot be delivered to KEYS' service area over the tie line from the mainland, KEYS has established a policy to have island generation capability equal to at least 60% of KEYS' peak load. FMPA has agreed to meet these criteria by using the existing synchronized generating resources of four combustion turbine units and two medium speed diesels that currently total 111.0 MW. As part of the TARP contract, FMPA is required to maintain generation assets within KEYS' Service Area equal to or above 60% of KEYS' load. The related assignment of resources by KEYS to FMPA, and other matters pertaining to KEYS' power supply are discussed in the following paragraphs.

KEYS had previously entered into several purchased power agreements with other parties including the FMPA Tri-City Project, the FMPA Stanton 2 Project, and a long-term purchase agreement with FPL (now expired). As a member of the All-Requirements Project, KEYS' resources and costs under these three contracts were assigned to FMPA.

KEYS appoints one representative to FMPA's Board of Directors, which governs the Agency's activities. The governance of rates charged to members includes the Executive Committee (KEYS has one vote) and the FMPA Board of Directors (KEYS' vote is weighted based on KEYS' participation in power supply projects).

**FMPA Tri-City Project (Stanton 1)** – KEYS is a member of the FMPA Tri-City Project (Stanton 1). KEYS and FMPA have entered into a Tri-City Project Power Sales Contract and a Tri-City Project Support Contract wherein KEYS has agreed to purchase 54.546% of FMPA's Tri-City Project. The Project consists of a 5.3012% undivided ownership interest in Curtis H. Stanton Energy Center ("Stanton") unit No. 1, a 440 MW coal-fired generating unit jointly owned by the Orlando Utilities Commission ("OUC"), the Kissimmee Utility Authority, and FMPA, and operated by the OUC. Stanton Unit No. 1 began commercial operation in July 1987. Based upon the unit's high dispatch rating of 440 MW, the Tri-City Project consists of a 23 MW undivided ownership and KEYS' power entitlement share is approximately 12.7 MW at the plant bus bar.

**FMPA Stanton 2 Project** – KEYS is a member of the FMPA Stanton 2 Project. KEYS and FMPA have entered into a Stanton 2 Project Power Sales Contract and a Project Support Contract wherein KEYS has agreed to purchase 9.8932% of FMPA's Stanton 2 Project. FMPA's Stanton 2 Project consists of a 23.2367% undivided ownership interest in Stanton Unit No. 2, a 446 MW coal-fired

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 11 – PURCHASED POWER COMMITMENTS (continued)**

generating unit jointly owned by OUC and FMPA, and operated by OUC. Stanton Unit No. 2 began commercial operation in June 1996. Based on the unit's 446 MW high dispatch rating, the Stanton 2 Project consists of 104 MW undivided ownership and KEYS' power entitlement share is approximately 10.3 MW at the plant bus bar.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

**Risk Management** – KEYS is exposed to various risks of loss related to torts, damage, theft or destruction of assets, errors or omissions, injuries to employees, and natural disasters.

KEYS purchases commercial insurance policies from a commercial insurance carrier and other insurance carriers to minimize its risk of loss in these areas. KEYS' bears the risk of loss on insured property up to the deductible amounts.

During this reporting period, KEYS experienced losses related to damages caused by Hurricane Irma, a category four strength hurricane that made landfall in the Lower Florida Keys on September 10, 2017. KEYS initial total storm damage assessment was approximately \$43 million. As of September 30, 2018, KEYS has incurred approximately \$36 million in hurricane restoration expenses and anticipate that approximately \$29 million of those expenses will be recovered through Federal Emergency Management Agency's (FEMA) Public Assistance Program. Restoration activities were not fully completed by the end of FY2018. An additional \$7 million of restoration work is not yet completed, of which \$5 million is expected to be eligible for FEMA reimbursement.

To date, FEMA has obligated approximately \$15 million which is currently at the State level for review and audit, the remaining \$21 million is still under FEMA review. No FEMA proceeds have been received as of September 30, 2018.

During FY2016 KEYS resolved a multi-year court proceeding related to a dispute with a vendor with no additional payments made to or received from the vendor related to the original dispute. During FY2017 KEYS received reimbursement of legal fees in the amount of \$323,000 related to the case.

**NOTE 13 – NAVY CONTRACT**

The United States Navy is the largest customer of KEYS and accounted for approximately 7.0% of the total kilowatt hours sold in both FY2018 and FY2017. KEYS executed an amendment to the Navy's service contract on December 8, 1999, which modified the rate schedule. The contract contained terms for minimum billing, service reduction and exclusive service provisions. Pursuant to the contract, KEYS agreed to provide a maximum of 15 MW of power at multiple locations.

On September 12, 2007, both parties signed a contract which was in effect through August 31, 2017. KEYS' contract with the Navy required the parties to commence negotiations for a new contract at least one year prior to the end of the current contract. As of September 2018, contract negotiations are in process. Currently, the Navy is being served non-contractually.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 14 – REGULATION**

According to existing laws of the State of Florida, the five members of the Board act as the regulatory authority for the establishment of electric rates. The Florida Public Service Commission (FPSC) has authority to regulate the electric "rate structures" of municipal utilities in Florida. It is believed that "rate structures" are clearly distinguishable from the total amount of revenues which a particular utility may receive from rates, and that distinction has thus far been carefully made by the FPSC. Prior to implementation of any rate change, KEYS files the proposed tariff with the Florida Public Service Commission and has established the prerequisite of a Public Notice and the holding of a Public Hearing. The Florida Electric Power Plant Siting Act has given the FPSC the exclusive authority to approve the construction of new power plants.

The FPSC also exercises jurisdiction under the National Energy and the Florida Energy Efficiency and Conservation Acts as related to electric use conservation programs and prescribes conformance to the Federal Energy Regulatory Commission's Uniform System of Accounts.

Operations of KEYS are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. Federal and State standards and procedures that govern control of the environment can change. These changes can arise from continuing legislative, regulatory, and judicial action respecting the standards and procedures.

Therefore, there is no assurance that the electric plants in operation, under construction or contemplated will always remain subject to the regulations currently in effect, or will always comply with future regulations.

An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual electric generating units not in compliance. Furthermore, compliance with environmental standards or deadlines may substantially increase capital and operating costs.

**NOTE 15 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**General Information About Post Employment Health Care benefits:**

KEYS implemented GASB No. 75, "Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions (OPEB)" for certain post-employment health care benefits effective fiscal year ended September 30, 2018. The most recent actuarial study is as of October 1, 2017.

**Plan Description** - KEYS does not have a separate Trust Fund or equivalent arrangement to administer OPEB benefits.

**Benefits Provided** – In addition to providing pension benefits, KEYS provides life insurance and health care benefits including prescription drug coverage, to retired employees. These benefits are provided pursuant to KEYS' personnel policies as adopted and amended by the Utility Board. KEYS is not required to provide contributions to this benefit by any statutory, contractual or other authority. KEYS employees hired before June 9, 1999 are eligible for these benefits, at a cost determined by the Utility Board, if they qualify for retirement status while working for KEYS.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 15 – OPEB (continued)**

Currently, the Utility Board does not require these retirees to contribute to the monthly premium for retiree coverage. The entire monthly premium for retiree coverage is paid by KEYS. KEYS employees hired after June 9, 1999, who attain retirement eligibility, have the opportunity to purchase health insurance through KEYS insurance provider and must pay at the same rate KEYS pays for its active members.

These and similar benefits for active employees are administered through a third party administrator. The costs of the monthly contributions to fund the plan and OPEB costs are included in these financial statements.

**Participants Covered** – At September 30, 2018 the following participants were covered by the benefit terms:

Retirees currently receiving benefits	141
Active employees hired before June 9, 1999	24
Active employees & Board Members hired after June 9, 1999	104
Total Participants Covered	<b>269</b>

**Funding Policy** – KEYS follows a pay as you go funding policy contributing an amount to provide for its portion of current year benefit costs, as well as amounts to establish a reserve for costs incurred but not yet reported. The benefits provided, funding levels, and participant contribution amounts are determined through recommendations by KEYS staff with assistance from outside consultants, and by action of the Utility Board. There are no assets accumulated in a trust.

During FY2018, the premium for retirees’ health care benefits was \$921.26 per month. If a retiree is eligible for Medicare, they are required to enroll in the Medicare program as their primary coverage as soon as they are eligible, thereby reducing KEYS costs.

Retirees may choose to purchase and pay for coverage for spouses or domestic partners.

**Actuarial Assumptions** – The total OPEB liability was determined by an actuarial valuation as of October 1, 2017 using the following assumptions:

Measurement Date	October 1, 2017
Inflation	2.75%
Discount Rate	3.5%
Projected salary increases	4.5% - 10.0%
Healthcare cost trends rates	Based on Getzen Model starting at 8% gradually decreasing to an ultimate rate of 4.4% in 2040
Retirees’ share of benefit related costs	Varies from 0% to 100% of blended health insurance premium rates



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**NOTE 15 – OPEB (continued)**

Healthy members based on various RP-2000 mortality tables with varying Collar adjustments and generational mortality improvements with Scale BB. Disabled Employees based on RP-2000 Disabled mortality tables setback 4 years for males and set forward 2 years for females and no projected improvements.

Experience Study - The actuarial assumptions used in the October 1, 2017 valuation are based on the results of an Experience Study for the five-year period ended December 31, 2012 under the Retirement System for General Employees of the Utility Board of the City of Key West.

**Discount Rate** – For plans that do not have a GASB compliant trust, the discount rate equals the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an Average AA credit rating as of the measurement date.

A discount rate of 3.5% was used to measure the October 1, 2017 Total OPEB Liability. A discount rate of 3.10% was used for the beginning of the measurement period. These rates are based on the Fidelity 20-Year Municipal GO AA Index – daily rate closest or equal to but not later than the respective measurement dates.

**Sensitivity of the Total OPEB Liability to the Discount Rate Assumption –**

	Measurement date: 10/1/2017		
	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	2.50%	3.50%	4.50%
Total OPEB Liability	\$ 66,938,967	\$ 57,269,047	\$ 49,630,914

**Sensitivity of the Total OPEB Liability to the Trend Rate Assumption –**

	Measurement date: 10/1/2017		
	1% Decrease	Current Discount Rate	1% Increase
Trend Rates	7.0% to 3.4%	8.0% to 4.4%	9.0% to 5.4%
Total OPEB Liability	\$ 49,971,864	\$ 57,269,047	\$ 66,355,385

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**NOTE 15 – OPEB (continued)**

**Schedule of Changes in Net OPEB Liability and Related Ratios:**

Valuation Date	10/1/2017
Measurement Date	10/1/2017
Reporting Date	9/30/2018
A. <u>Total OPEB Liability (TOL)</u>	
Service Cost	\$ 1,051,009
Interest	2,651,415
Benefit Changes	0
Difference Between Actual and Expected Experience	(8,417,519)
Assumption Changes	(21,346,490)
Benefit Payments	<u>(2,278,362)</u>
Net Change in Total OPEB Liability	(28,339,947)
Total OPEB Liability (TOL) - (beginning of year)	<u>85,608,994</u>
Total OPEB Liability (TOL) - (end of year)	<u>\$ 57,269,047</u>
B. <u>Covered Employee Payroll</u>	\$ 9,311,241
C. <u>TOL as Percentage of Covered Employee Payroll: (A)/(B)</u>	615.05%

Update procedures were used to roll forward TOL from prior valuation of October 1, 2015 to October 1, 2016 to obtain the beginning of year TOL.

Changes in benefit terms: None

Changes of assumptions:

Measurement Date	October 1, 2017	October 1, 2016
Discount Rate	3.50%	3.10%
Excise Tax Load	9.80%	12.70%
Health Care Trend	8.0% to 4.4% in 2040+	9.0% to 4.5% in 2024+

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**NOTE 15 – OPEB (continued)**

OPEB Expense for Fiscal Year Ending September 30, 2018 \$ (3,557,090)

Summary of Outstanding Deferred Inflows and Outflows of Resources as of September 30, 2018

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 6,364,466
Changes of assumptions or other inputs	-	16,140,029
Total	\$ -	\$ 22,504,495

Projected Deferred Outflow for Amounts paid by KEYS for OPEB Benefits and Administrative Expenses after the Measurement Date to be Recognized in OPEB expense for Fiscal Year Ending September 30, 2019

Projected OPEB Benefits	\$ 1,942,033
Projected Administrative Expenses	5,764
Total Deferred Outflow	\$ 1,947,797

Summary of Deferred Outflows and (Inflows) of Resources that will be Recognized in the Pension

Year ending	Amount
9/30/2019	\$ (7,259,514)
9/30/2020	(7,259,514)
9/30/2021	(7,259,514)
9/30/2022	(725,953)
9/30/2023	-
Thereafter	-

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
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**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**NOTE 16 – PAYMENT TO THE CITY OF KEY WEST**

KEYS is the successor of the electric public utility once owned by the City. All electric utility property owned by the City of Key West was transferred to KEYS at the time of KEYS' creation. KEYS pays the City an annual amount as described in Resolution 532.

Paragraph (11) of Section 3.03 (B) of the Original Resolution 532 was amended on September 8, 1999 by Resolution 678 to be effective for the amount paid in 2001. The Board will pay to the City a sum equal to the greater of (a) \$200,000 (adjusted annually for changes in the Consumer Price index or (b) one percent (1%) of the Gross Revenues derived from sales of electricity at retail (exclusive of Power Cost Revenues which are defined as (i) revenues determined by reference to the power cost component of base rates, plus or minus (ii) power cost adjustment charges or credits.)

The annual payments were \$422,850 and \$428,851 in 2018 and 2017, respectively.

**NOTE 17 – Line of Credit**

In order to meet the cash flow requirements related to Hurricane Irma restoration, on October 11, 2017 the Utility Board approved Supplemental Resolution #804 for opening a Line of Credit in the not to exceed amount of \$50,000,000 with Bank Of America, N.A., of which ten percent will be participated with First State Bank of the Florida Keys. The Board also authorized payment of associated issuance costs of \$160,100.

The Line of Credit was executed on October 12, 2018. The terms of the line of credit are three (3) years. Each advance under the facility will bear interest prior to maturity at a rate annum equal to the sum of 70% of the LIBOR Rate plus 80 basis points.

As of September 30, 2018 the outstanding amount of the Line of Credit is \$42,500,000, and KEYS has incurred approximately \$778,000 in interest cost.

The line of credit will be repaid with the proceeds of FEMA claims or from KEYS Renewal and Replacement Fund.

**NOTE 18 – PRIOR PERIOD ADJUSTMENT**

During fiscal year 2018, KEYS adopted GASB Statement No. 75 "Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions (OPEB)"pensions. GASB 75 requires recording Total OPEB Liability when a plan is unfunded. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The amount of the prior period adjustment is \$57,834,970. The restated beginning net position is \$33,671,754.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**NOTE 18 – PRIOR PERIOD ADJUSTMENT (continued)**

Net Position as previously reported at 9/30/18	\$ 91,506,724
Prior Period adjustment - Implementation of GASB 75:	
Total OPEB liability (measurement date 10/01/17)	(60,113,332)
Deferred Outflows - payment after measurement date	<u>2,278,362</u>
Total prior period adjustment	<u>(57,834,970)</u>
Net Position as restated 10/01/18	<u><u>\$ 33,671,754</u></u>

Also during fiscal year 2018, it was determined that the proper accounting treatment for hurricane restoration expenditures is to record per KEYS normal capitalization policy. Grant expense was reduced by \$19.4 million and Construction Work in Progress increased by \$19.4 million, increasing Net Position at September 30, 2017.

**NOTE 19 – SUBSEQUENT EVENTS**

On November 30, 2018 KEYS received its first reimbursement check from the State of Florida in the amount of \$629,802.29 for reimbursement of Hurricane Irma expenses.

On December 26, 2018 KEYS received another reimbursement check from the State of Florida in the amount of \$36,750.00 for reimbursement of Hurricane Irma expenses.

Subsequent to receipt of the amounts referenced above, payments of \$629,802.29 and \$36,750.00 were made to pay down the Line of Credit.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**The Retirement System for the General Employees of  
the Utility Board of the City of Key West, Florida  
(Pension)**

**Schedule of Money-Weighted Rate of Return\***

**\*net of fees**

**(GASB no. 68)**

Fiscal Year Ended 12/31	Money Weighted Rate of Return
2008	-23.40%
2009	18.21%
2010	11.50%
2011	0.59%
2012	12.96%
2013	20.52%
2014	5.47%
2015	-0.23%
2016	7.27%
2017	16.24%

**The Retirement System for the General Employees of  
the Utility Board of the City of Key West, Florida  
(Pension)**

**Schedule of Employer Contributions (GASB No. 68)**

Fiscal Year Ended 9/30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Actual Covered Payroll	Actual Contribution as a % of Covered Payroll
2009	3,123,367	3,123,367	0	9,618,836	32.47%
2010	3,113,619	3,172,162	(58,543)	9,744,536	32.55%
2011	3,142,476	3,142,476	0	9,603,964	32.72%
2012	3,310,992	3,310,992	0	9,375,009	35.32%
2013	3,560,247	3,560,247	0	9,200,101	38.70%
2014	3,540,786	3,540,786	0	9,009,360	39.30%
2015	3,522,153	3,522,153	0	8,985,084	39.20%
2016	3,890,747	3,890,747	0	9,259,310	42.02%
2017	3,943,573	3,943,573	0	9,542,044	41.33%
2018	4,049,467	4,049,467	0	9,311,241	43.49%

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**Schedule of Employer Contributions – (continued)**

**Valuation Date:** Actuarially determined contributions are calculated using a valuation date as of the beginning of the plan year (each January 1st).

**Methods and Assumptions used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Pay, Closed
Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	4.5% – 10.0%
Investment Rate of Return	7.5%
Payroll Growth Assumption	3.0% per year, but limited to average annual increase over most recent ten years (1.5%).
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	For healthy male participants during employment, RP 2000 Combined Male Healthy Participant Mortality Table, with 50% White Collar/50% Blue Collar Adjustment and fully generational mortality improvements projected to each future decrement date with Scale BB. For healthy female participants during employment, RP 2000 Combined Female Healthy Participant Mortality Table, with White Collar Adjustment and fully generational mortality improvements projected to each future decrement date with Scale BB. For disabled male participants, RP 2000 Disabled Male Mortality Table, setback four years, without projected mortality improvements. For disabled female participants, RP 2000 Disabled Female Mortality Table, set forward two years, without projected mortality improvements.
Cost-of-living Increases	3.0%

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the five years ended December 31, 2012.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**The Retirement System for the General Employees of  
the Utility Board of the City of Key West, Florida  
(Pension)**

**LAST 10 FISCAL YEARS \***

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
<b>A. <u>Total Pension Liability</u></b>				
Service Cost	\$ 1,653,371	\$ 1,689,246	\$ 1,615,566	\$ 1,688,924
Interest	8,313,210	8,043,700	7,503,157	7,233,694
Benefit Changes	132,646	-	-	-
Difference Between Actual and Expected Experience	(756,398)	465,515	(399,487)	(552,616)
Assumption Changes	113,197	2,800,797	-	3,883,996
Benefit Payments	(5,723,180)	(5,462,925)	(5,040,021)	(4,673,833)
Net Change in Total Pension Liability	3,732,846	7,536,333	3,679,215	7,580,165
Total Pension Liability (TPL) - (beginning of year)	112,561,577	105,025,244	101,346,029	93,765,864
Total Pension Liability (TPL) - (end of year)	<u>\$ 116,294,423</u>	<u>\$ 112,561,577</u>	<u>\$ 105,025,244</u>	<u>\$ 101,346,029</u>
<b>B. <u>Plan Fiduciary Net Position</u></b>				
Contributions - Plan Sponsor	\$ 3,860,513	\$ 3,986,227	\$ 3,653,199	\$ 3,511,645
Contributions - Member	-	-	-	-
Net Investment Income	12,634,539	5,090,087	(550,552)	3,909,304
Benefit Payments	(5,723,180)	(5,462,925)	(5,040,021)	(4,673,833)
Administrative Expenses	(58,967)	(57,971)	(67,452)	(75,519)
Other	-	-	-	-
Net Change in Plan Fiduciary Net Position	\$ 10,712,905	\$ 3,555,418	\$ (2,004,826)	\$ 2,671,597
Plan Fiduciary Net Position - (beginning of year)	80,916,572	77,361,154	79,365,980	76,694,383
Plan Fiduciary Net Position - (end of year)	<u>\$ 91,629,477</u>	<u>\$ 80,916,572</u>	<u>\$ 77,361,154</u>	<u>\$ 79,365,980</u>
<b>C. <u>Net Pension Liability (NPL) - (end of year): (A) - (B)</u></b>	\$ 24,664,946	\$ 31,645,005	\$ 27,664,090	\$ 21,980,049
<b>D. <u>Plan Fiduciary Net Position as a Percentage of TPL: (B) / (A)</u></b>	78.79 %	71.89 %	73.66 %	78.31 %
<b>E. <u>Covered Payroll **</u></b>	\$ 9,462,044	\$ 9,291,906	\$ 9,319,386	\$ 8,958,281
<b>F. <u>NPL as a Percentage of Covered Employee Payroll: (C) / (E)</u></b>	260.67 %	340.57 %	296.84 %	245.36 %
<b>G. <u>Notes to Schedule:</u></b>				
Valuation Date	01/01/2017	01/01/2016	01/01/2015	01/01/2014
Reporting Date (GASB No. 68)	09/30/2018	09/30/2017	09/30/2016	09/30/2015
Update procedures used to roll forward TPL to the measurement dates.				

\*\* Reported payroll on which contributions to the System are based as provided under GASB No. 82

\* GASB 68 implemented FY15 - no prior year data available



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**

Valuation Date	10/1/2017
Measurement Date	10/1/2017
Reporting Date	9/30/2018
A. <u>Total OPEB Liability (TOL)</u>	
Service Cost	\$ 1,051,009
Interest	2,651,415
Benefit Changes	0
Difference Between Actual and Expected Experience	(8,417,519)
Assumption Changes	(21,346,490)
Benefit Payments	<u>(2,278,362)</u>
Net Change in Total OPEB Liability	(28,339,947)
Total OPEB Liability (TOL) - (beginning of year)	<u>85,608,994</u>
Total OPEB Liability (TOL) - (end of year)	<u>\$ 57,269,047</u>
B. <u>Covered Employee Payroll</u>	\$ 9,311,241
C. <u>TOL as Percentage of Covered Employee Payroll: (A)/(B)</u>	615.05%

GASB 75 implemented FY18 – no prior year data available

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**SCHEDULE OF REVENUES EARNED**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues:</b>		
Electric Revenues	\$ 97,599,849	\$ 99,208,417
Power Cost Adjustment	(12,548,996)	(7,549,675)
Service Charges	367,840	292,115
Penalty Charges	393,849	364,363
Charges for New Service	343,750	112,620
Other	<u>1,479,641</u>	<u>266,816</u>
<b>Total</b>	<u>87,635,933</u>	<u>92,694,656</u>
<b>Other Income:</b>		
Interest	955,422	576,858
Pole Attachment	588,530	575,343
Generating Unit Expense Reimbursement	398,056	382,184
Transmission Improvement Reimbursement	66,842	87,069
Tree Trimming	126,142	129,036
Rental Income	498,879	424,294
Grant Revenue - Hurricane	12,149,424	17,201,796
Miscellaneous Non-Operating Revenue	<u>654,056</u>	<u>694,339</u>
<b>Total Other Income</b>	<u>15,437,351</u>	<u>20,070,919</u>
<b>Total Revenues</b>	<u>\$ 103,073,284</u>	<u>\$ 112,765,575</u>

**UTILITY BOARD OF THE CITY OF KEY WEST**  
**SCHEDULES OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Annual Budget		Year to Date Actual	Variance- Favorable (Unfavorable)
	Original	Current		
<b>Revenues</b>				
Operating Revenues	\$ 103,120,870	\$ 97,098,758	\$ 85,050,853	\$(12,047,905)
Other Operating Revenues	1,050,993	1,983,398	2,585,080	601,682
Interest Income	99,168	99,320	955,422	856,102
Hurricane Grant Revenue	-	-	12,149,424	12,149,424
Non-Operating Revenues	<u>1,849,303</u>	<u>2,015,272</u>	<u>2,332,505</u>	<u>317,233</u>
<b>Total Revenue</b>	<u>106,120,334</u>	<u>101,196,748</u>	<u>103,073,284</u>	<u>1,876,536</u>
<b>Expenditures</b>				
Purchased Power	60,615,870	55,612,362	44,486,246	11,126,116
Transmission Expenses	7,741,557	8,414,187	7,681,566	732,621
Distribution Expenses	8,628,209	8,821,670	8,558,458	263,212
Customer Accounts and Collection Expenses	2,085,763	2,079,563	2,062,153	17,410
Interest on Customer Deposits	13,000	13,000	-	13,000
Interest on Line of Credit	-	-	778,191	(778,191)
Administrative and General Expenses	15,932,746	16,386,909	11,239,840	5,147,069
Senior Lien Debt Service	11,152,888	11,152,888	11,152,887	1
Hurricane Expense	-	-	580,559	(580,559)
Payment to City of Key West	<u>435,560</u>	<u>435,560</u>	<u>422,850</u>	<u>12,710</u>
<b>Total Expenditures</b>	<u>106,605,593</u>	<u>102,916,139</u>	<u>86,962,750</u>	<u>15,953,389</u>
<b>Excess of Revenues Over Expenditures</b>	<u>\$ (485,259)</u>	<u>\$ (1,719,391)</u>	<u>\$ 16,110,534</u>	<u>\$ 17,829,925</u>
<b>Adjustments</b>				
Depreciation			(7,531,883)	
Principal Portion of Budgeted Debt Service			1,391,241	
Accrued Interest Capital Appreciation			7,878,759	
Capitalized Overhead			1,690,343	
Interest Accrued but Unfunded			(624,705)	
Issue Costs & Amortization of Premium			323,884	
Loss on Disposition of Assets			(149,011)	
Realized and Unrealized Loss on investments			(193,221)	
Amortization of Loss on Refunding			<u>(198,804)</u>	
<b>Change in Net Position, GAAP Basis</b>			<u>\$ 18,697,137</u>	

**UTILITY BOARD OF THE CITY OF KEY WEST**  
**STATISTICAL SECTION DESCRIPTION**

This part of the KEYS Comprehensive Annual Financial Report presents detailed information as a context for understanding what the data in the financial statements, note disclosure, and required supplementary information says about KEYS overall financial health. Statistical information for the current period, as well as nine years prior are presented in this section.

**Financial Trends** – These schedules contain trend information to help the reader understand how KEYS financial performance and wellbeing have changed over time.

**Revenue Capacity** – These schedules contain information to help the reader assess KEYS local revenue source.

**Debt Capacity** – These schedules present information to help the reader assess KEYS debt burden and its ability to issue additional debt in the future.

**Demographic and Economic Information** – This schedule offers demographic and economic indicators to help the reader understand the environment in which KEYS financial activities take place.

**Operating Information** – These schedules contain service and infrastructure data to help the reader understand how the information in KEYS financial report relates to the services KEYS provides and the activities it performs.



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**FINANCIAL TRENDS**

**CONDENSED STATEMENTS OF NET POSITION**

**FISCAL YEARS 2018 – 2009**

	<b>2018</b>	<b>Restated 2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>										
<b>Current Assets</b>										
Cash and Investments	\$ 23,594,291	\$ 11,971,556	\$ 13,473,823	\$ 13,053,259	\$ 13,122,165	\$ 11,619,057	\$ 26,849,275	\$ 21,567,674	\$ 22,556,707	\$ 21,682,666
Accounts Receivable, net	6,948,299	9,980,214	6,299,626	6,913,413	7,746,099	7,662,903	8,030,525	7,401,356	7,296,861	7,594,719
Unbilled Customer Receivables	4,754,604	4,189,837	4,501,716	4,645,484	4,965,159					
Plant Material and Operating Supplies Inventory	3,739,264	2,233,748	2,705,876	2,641,672	2,740,636	2,773,137	2,729,189	2,712,209	3,851,035	3,978,064
Other Current Assets	<u>30,749,086</u>	<u>19,595,285</u>	<u>1,653,844</u>	<u>1,774,669</u>	<u>1,673,906</u>	<u>1,373,190</u>	<u>2,395,876</u>	<u>2,125,495</u>	<u>1,517,799</u>	<u>1,473,977</u>
Total Unrestricted Current Assets	69,785,544	47,970,640	28,634,885	29,028,497	30,247,965	23,428,287	40,004,865	33,806,734	35,222,402	34,729,426
Cash and Investments-Restricted	19,027,711	1,023,203	4,877,511	9,047,754	10,015,183	10,560,152	9,640,293	17,601,586	9,383,394	30,050,392
Investments	1,320,087	1,096,480	2,500,000	2,500,000	-	-	-	-	-	-
Prepaid Expenses	-	10,211,444	10,211,444	10,211,444	10,264,294	9,148,828	8,937,953	-	8,534,034	-
Interest Receivable	<u>35,060</u>	<u>34,869</u>	<u>2,715</u>	<u>3,258</u>	<u>3,258</u>	<u>3,258</u>	<u>3,258</u>	<u>2,715</u>	<u>1,629</u>	<u>2,715</u>
Total Restricted Current Assets	20,382,858	12,365,996	17,591,670	21,762,456	20,282,735	19,712,238	18,581,504	17,604,301	17,919,057	30,053,107
<b>Total Current Assets</b>	<u>90,168,402</u>	<u>60,336,636</u>	<u>46,226,555</u>	<u>50,790,953</u>	<u>50,530,700</u>	<u>43,140,525</u>	<u>58,586,369</u>	<u>51,411,035</u>	<u>53,141,459</u>	<u>64,782,533</u>
<b>Non Current Assets</b>										
Capital Assets										
Net Utility Plant	165,341,384	125,900,103	126,821,240	123,046,185	124,163,363	124,209,444	129,410,912	125,884,247	151,490,867	131,418,048
Construction in Progress	<u>2,871,611</u>	<u>27,861,186</u>	<u>7,442,379</u>	<u>7,187,358</u>	<u>4,834,632</u>	<u>4,070,040</u>	<u>423,822</u>	<u>2,479,146</u>	<u>3,446,405</u>	<u>9,924,967</u>
Total Net Capital Assets	168,212,995	153,761,289	134,263,619	130,233,543	128,997,995	128,279,484	129,834,734	128,363,393	154,937,272	141,343,015
Restricted Non-Current Assets										
Investments	8,129,127	8,408,604	4,500,000	2,500,000	2,511,171	2,494,154	-	-	-	-
Interest Receivable	4,066	3,709	5,114	5,529	7,304	9,160	-	-	-	-
Deposits-Restricted	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>
Total Restricted Non-Current Assets	10,399,732	10,678,852	6,771,653	4,772,068	4,785,014	4,769,853	2,266,539	2,266,539	2,266,539	2,266,539
Unrestricted Non-Current Assets										
Investments	1,265,926	2,708,892	9,858,697	15,545,598	14,471,861	15,423,592	-	-	-	-
Interest Receivable	21,805	23,970	32,340	10,328	34,402	51,349	-	-	-	-
Long Term Receivable	644,231	8,171,629	8,646,370	9,197,308	9,772,123	10,216,998	10,663,958	11,134,617	6,372,920	6,228,096
Other Accounts Receivable	-	-	-	-	-	-	255,463	402,446	541,801	1,168,151
Bond Discount and Issue Costs, Net	-	-	-	-	6,868	8,585	396,497	512,045	627,593	743,141
Total Unrestricted Non-Current Assets	1,931,962	10,904,491	18,537,407	24,753,234	24,285,254	25,700,524	11,315,918	12,049,108	7,542,314	8,139,388
<b>Total Non-Current Assets</b>	<u>180,544,689</u>	<u>175,344,632</u>	<u>159,572,679</u>	<u>159,758,845</u>	<u>158,068,263</u>	<u>158,749,861</u>	<u>143,417,191</u>	<u>142,679,040</u>	<u>164,746,125</u>	<u>151,748,942</u>
<b>Deferred Outflows of Resources</b>										
Loss on Refunding Series 2014	2,584,455	2,783,259	2,982,063	3,180,868	-	-	-	-	-	-
Deferred Outflows Related to Net Pension Liability	4,412,061	10,662,137	10,794,502	6,934,422	-	-	-	-	-	-
Deferred Outflows Related to OPEB Liability	<u>1,947,797</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Deferred Outflows of Resources</b>	8,944,313	13,445,396	13,776,565	10,115,290	-	-	-	-	-	-
<b>Total Assets and Deferred Outflows</b>	<u>\$ 279,657,404</u>	<u>\$ 249,126,664</u>	<u>\$ 219,575,799</u>	<u>\$ 220,665,088</u>	<u>\$ 208,598,963</u>	<u>\$ 201,890,386</u>	<u>\$ 202,003,560</u>	<u>\$ 194,090,075</u>	<u>\$ 217,887,584</u>	<u>\$ 216,531,475</u>

(Continued)

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**FINANCIAL TRENDS**  
**CONDENSED STATEMENTS OF NET POSITION (Continued)**  
**FISCAL YEARS 2018 - 2009**

	<b>2018</b>	<b>Restated 2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>NET POSITION AND LIABILITIES</b>										
<b>Current Liabilities</b>										
Unrestricted Current Liabilities										
Accounts Payable	\$ 4,899,112	\$ 22,824,839	\$ 4,850,378	\$ 5,942,723	\$ 4,446,291	\$ 5,461,602	\$ 4,703,083	\$ 5,552,962	\$ 5,315,703	\$ 5,504,682
Accrued Expenses	4,397,464	3,047,326	2,421,233	2,013,141	2,269,550	2,341,929	1,944,294	1,723,721	1,979,216	2,877,088
Accrued Power Cost Adjustment	7,420,939	3,546,536	2,896,919	7,082,839	5,000,126	-	-	-	-	-
Unearned Revenues	<u>153,642</u>	<u>545,869</u>	<u>390,684</u>	<u>762,126</u>	<u>470,747</u>	<u>412,408</u>	<u>187,002</u>	<u>401,694</u>	<u>247,526</u>	<u>671,262</u>
Total Unrestricted Current Liabilities	16,871,157	29,964,570	10,559,214	15,800,829	12,186,714	8,215,939	6,834,379	7,678,377	7,542,445	9,053,032
Restricted Current Liabilities										
Current Portion of Long-Term Debt	1,716,843	1,815,705	1,923,425	2,059,230	1,890,936	7,956,096	7,466,707	7,061,707	6,666,707	6,311,707
Accounts Payable	1,288,034	588,080	2,045,985	358,354	241,847	912,008	474,738	584,737	2,088,337	1,620,382
Accrued Interest	7,878,759	8,719,623	8,611,906	8,476,100	8,404,454	1,223,828	1,442,953	1,646,716	1,839,035	2,020,441
Due to Customers	4,740,372	4,703,861	4,727,139	4,638,315	4,633,232	4,762,506	4,662,549	4,617,164	4,462,038	4,315,660
Security Deposits Payable	<u>121,681</u>	<u>157,156</u>	<u>173,216</u>	<u>246,219</u>	<u>245,546</u>	<u>246,103</u>	<u>168,169</u>	<u>115,155</u>	<u>112,390</u>	<u>610,000</u>
Total Restricted Current Liabilities	15,745,689	15,984,425	17,481,671	15,778,218	15,416,015	15,100,541	14,215,116	14,025,479	15,168,507	14,878,190
<b>Total Current Liabilities</b>	<b>32,616,846</b>	<b>45,948,995</b>	<b>28,040,885</b>	<b>31,579,047</b>	<b>27,602,729</b>	<b>23,316,480</b>	<b>21,049,495</b>	<b>21,703,856</b>	<b>22,710,952</b>	<b>23,931,222</b>
<b>Non Current Liabilities</b>										
Compensated absences	929,859	1,087,122	1,301,715	1,363,504	1,448,874	1,542,737	1,573,337	1,546,768	1,742,962	1,668,691
Accrued OPEB Expenses	57,269,047	25,495,662	23,329,961	20,847,099	17,900,194	14,896,218	11,789,819	8,552,520	5,657,018	1,628,769
Revenue Bonds	44,272,209	45,989,052	47,804,755	49,728,180	48,715,487	50,606,423	58,562,519	66,029,226	73,090,933	79,757,640
Line of Credit	42,500,000	-	-	-	-	-	-	-	-	-
Accrued Interest	-	7,254,058	13,824,892	19,744,660	25,026,089	29,714,021	27,174,709	24,806,001	22,596,441	20,535,423
Net Pension Liability	<u>24,664,946</u>	<u>31,645,005</u>	<u>27,664,090</u>	<u>21,980,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Non Current Liabilities</b>	<b>169,636,061</b>	<b>111,470,899</b>	<b>113,925,413</b>	<b>113,663,492</b>	<b>93,090,644</b>	<b>96,759,399</b>	<b>99,100,384</b>	<b>100,934,515</b>	<b>103,087,354</b>	<b>103,590,523</b>
<b>Total Liabilities</b>	<b><u>202,252,907</u></b>	<b><u>157,419,894</u></b>	<b><u>141,966,298</u></b>	<b><u>145,242,539</u></b>	<b><u>120,693,373</u></b>	<b><u>120,075,879</u></b>	<b><u>120,149,879</u></b>	<b><u>122,638,371</u></b>	<b><u>125,798,306</u></b>	<b><u>127,521,745</u></b>
<b>Deferred Inflows of Resources</b>										
Deferred Inflows Related to Net Pension Liability	2,531,111	200,046	492,345	385,157	-	-	-	-	-	-
Deferred Inflows Related to OPEB Liability	<u>22,504,495</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Deferred Inflows of Resources</b>	<b>25,035,606</b>	<b>200,046</b>	<b>492,345</b>	<b>385,157</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Position</b>	<b><u>52,368,891</u></b>	<b><u>91,506,724</u></b>	<b><u>77,117,156</u></b>	<b><u>75,037,392</u></b>	<b><u>87,905,590</u></b>	<b><u>81,814,507</u></b>	<b><u>81,853,681</u></b>	<b><u>71,451,704</u></b>	<b><u>92,089,278</u></b>	<b><u>89,009,730</u></b>
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<b><u>\$ 279,657,404</u></b>	<b><u>\$ 249,126,664</u></b>	<b><u>\$ 219,575,799</u></b>	<b><u>\$ 220,665,088</u></b>	<b><u>\$ 208,598,963</u></b>	<b><u>\$ 201,890,386</u></b>	<b><u>\$ 202,003,560</u></b>	<b><u>\$ 194,090,075</u></b>	<b><u>\$ 217,887,584</u></b>	<b><u>\$ 216,531,475</u></b>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**FINANCIAL TRENDS**

**CHANGES IN NET POSITION**

**FISCAL YEARS 2018-2009**

	<b><u>2018</u></b>	<b><u>Restated 2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
<b>Revenues</b>										
Utility Activities:										
Charges for Electric:										
Customer Charge	\$ 7,355,696	\$ 6,622,199	\$ 6,567,195	\$ 6,485,806	\$ 6,708,659	\$ 6,402,838	\$ 2,428,747	\$ 2,403,347	\$ 2,387,069	\$ 2,273,622
Energy	82,161,411	84,069,767	86,241,987	83,915,334	88,387,525	81,223,828	88,061,761	87,125,444	87,979,773	81,257,201
Demand	5,863,746	6,213,818	6,266,918	6,094,731	6,329,040	6,084,897	5,150,585	5,076,653	5,218,362	4,856,126
Power Cost Adjustment	(12,548,997)	(7,549,675)	(13,286,111)	(13,177,431)	(9,709,324)	(6,459,956)	(2,696,333)	(2,259,807)	3,152,497	14,892,862
Gross Receipts	<u>2,218,997</u>	<u>2,302,633</u>	<u>2,087,515</u>	<u>2,184,725</u>	<u>3,028,503</u>	<u>2,232,145</u>	<u>2,378,596</u>	<u>2,363,121</u>	<u>2,526,727</u>	<u>2,645,635</u>
Total Charges for Electric	85,050,853	91,658,742	87,877,504	85,503,165	94,744,403	89,483,752	95,323,356	94,708,758	101,264,428	105,925,446
Charges for Service:										
Penalty Charge	393,849	364,363	385,264	441,970	603,980	629,375	653,471	637,130	803,952	1,023,502
Service Charge	367,840	292,115	318,250	476,170	553,309	607,857	388,890	400,005	423,187	255,514
Initial Permanent Service	344,245	113,215	129,075	122,460	147,272	79,420	55,695	116,165	90,500	83,575
Line Extension	1,323,864	251,921	1,118,448	322,879	225,399	498,280	942,262	164,972	724,859	268,576
Impact Fee	<u>153,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>350</u>	<u>(47,282)</u>	<u>54,838</u>	<u>89,817</u>	<u>119,985</u>	<u>94,823</u>
Total Charges for Service	2,582,916	1,021,614	1,951,037	1,363,479	1,530,310	1,767,650	2,095,156	1,408,089	2,162,483	1,725,990
Charges for Other Services:										
Green Power	-	-	-	-	-	2,325	9,450	9,760	10,815	13,845
Capacity Credits	-	-	-	-	-	-	-	332,707	1,611,873	1,777,614
Other	<u>2,164</u>	<u>14,300</u>	<u>14,529</u>	<u>8,286</u>	<u>20,606</u>	<u>33,752</u>	<u>37,947</u>	<u>45,614</u>	<u>34,988</u>	<u>151,414</u>
Total Charges for Other Services	<u>2,164</u>	<u>14,300</u>	<u>14,529</u>	<u>8,286</u>	<u>20,606</u>	<u>36,077</u>	<u>47,397</u>	<u>388,081</u>	<u>1,657,676</u>	<u>1,942,873</u>
Total Utility Activities	<u>87,635,933</u>	<u>92,694,656</u>	<u>89,843,070</u>	<u>86,874,930</u>	<u>96,295,319</u>	<u>91,287,479</u>	<u>97,465,909</u>	<u>96,504,928</u>	<u>105,084,587</u>	<u>109,594,309</u>
Non-Utility Activities:										
Rental Income	1,144,345	1,055,166	937,401	868,897	960,861	923,434	841,228	975,560	854,843	389,888
Miscellaneous	1,385,902	1,431,948	1,151,767	2,210,373	2,382,428	900,321	3,342,387	862,917	978,959	1,998,283
Tree Trimming	126,142	129,036	135,378	130,254	130,962	124,568	131,168	130,912	129,888	135,008
BP Settlement, net of \$408,244 fees	-	-	-	1,598,388	-	-	-	-	-	-
Investment Earnings	955,422	576,858	713,099	735,859	725,435	611,996	508,014	419,245	266,524	388,391
Special Item-Hurricane	-	-	-	-	-	-	-	-	-	(479)
Special Item-SO2 Credits	-	-	-	-	-	-	-	-	50,930	-
Grant Revenue	<u>12,149,424</u>	<u>17,201,796</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,750</u>	<u>446,069</u>	<u>1,523</u>	<u>-</u>	<u>-</u>
Total Non-Utility Activities	<u>15,761,235</u>	<u>20,394,804</u>	<u>2,937,645</u>	<u>5,543,771</u>	<u>4,199,686</u>	<u>2,572,069</u>	<u>5,268,866</u>	<u>2,390,157</u>	<u>2,281,144</u>	<u>2,911,091</u>
Total Revenues	<u>\$ 103,397,168</u>	<u>\$ 113,089,460</u>	<u>\$ 92,780,715</u>	<u>\$ 92,418,701</u>	<u>\$ 100,495,005</u>	<u>\$ 93,859,548</u>	<u>\$ 102,734,775</u>	<u>\$ 98,895,085</u>	<u>\$ 107,365,731</u>	<u>\$ 112,505,400</u>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**FINANCIAL TRENDS**  
**CHANGES IN NET POSITION (Continued)**  
**FISCAL YEARS 2018 – 2009**

	<u>2018</u>	<u>Restated 2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Expenses</b>										
Utility Activities:										
Operating Expenses										
Production - Diesel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 359,330	\$ 1,557,898	\$ 2,186,002
Purchased Power	44,486,246	51,340,755	46,744,853	45,567,232	52,691,941	51,738,636	50,658,853	52,961,249	63,272,371	66,847,376
Transmission	7,681,566	7,167,798	6,446,897	5,479,645	5,653,600	5,647,880	4,782,103	4,793,953	4,519,506	4,648,803
Distribution	8,558,458	7,681,620	7,553,159	5,031,891	3,736,558	3,798,706	3,800,595	3,844,570	3,939,956	4,065,166
Customer Service	2,062,154	2,117,621	1,935,831	1,195,377	1,222,595	1,383,512	1,242,695	1,256,967	1,663,487	1,675,437
Administrative & General	7,294,764	16,113,156	13,577,487	17,447,454	15,723,183	15,540,816	14,555,804	14,682,883	14,288,249	12,620,134
Depreciation	7,531,883	7,434,250	7,377,387	7,151,518	7,297,266	7,294,534	6,979,378	7,033,190	7,925,719	7,190,781
Gross Receipts Tax	2,208,970	2,315,656	2,095,884	2,197,639	2,369,484	2,237,094	2,383,084	2,367,719	2,531,611	2,648,136
Employer Payroll Tax	45,766	47,443	49,144	135,307	123,713	124,105	116,673	120,454	134,583	145,807
Total Utility Activities	<u>79,869,807</u>	<u>94,218,299</u>	<u>85,780,642</u>	<u>84,206,063</u>	<u>88,818,340</u>	<u>87,765,283</u>	<u>84,519,185</u>	<u>87,420,315</u>	<u>99,833,380</u>	<u>102,027,642</u>
Non-Utility Activities										
Debt Expenses										
Interest on Debt	3,484,583	3,289,035	3,832,387	4,376,930	4,710,816	5,046,358	5,314,003	4,568,087	3,809,889	4,034,263
Interest Customer Deposit	-	791	21,437	6,929	11,531	-	2,870	10,238	8,998	10,807
Amortization of Bond Discount	-	-	-	-	-	356,815	84,452	100,000	115,548	115,548
Issue Cost Bond Series 2014	-	-	-	479,666	-	-	-	-	-	-
Payment to City of Key West	422,850	428,851	390,989	395,384	419,323	434,331	423,585	444,926	393,368	386,188
Loss on Disposal of Assets	149,011	263,283	616,043	1,436,614	280,530	139,794	1,827,209	1,130,404	-	-
Net Appreciation in Fair Value of Investments	193,221	217,808	59,453	93,629	163,382	156,141	-	-	-	-
Grant Expense	580,559	281,825	-	-	-	-	161,494	7,992	-	-
Special Item - Hurricane	-	-	-	-	-	-	-	-	125,000	-
Special Item - TARP	-	-	-	-	-	-	-	13,141,312	-	-
Special Item - Change in Accounting	-	-	-	-	-	-	-	12,709,385	-	-
Total Non-Utility Activities	<u>4,830,224</u>	<u>4,481,593</u>	<u>4,920,309</u>	<u>6,789,152</u>	<u>5,585,582</u>	<u>6,133,439</u>	<u>7,813,613</u>	<u>32,112,344</u>	<u>4,452,803</u>	<u>4,546,806</u>
Total Expenses	<u>\$ 84,700,031</u>	<u>\$ 98,699,892</u>	<u>\$ 90,700,951</u>	<u>\$ 90,995,215</u>	<u>\$ 94,403,922</u>	<u>\$ 93,898,722</u>	<u>\$ 92,332,798</u>	<u>\$ 119,532,659</u>	<u>\$ 104,286,183</u>	<u>\$ 106,574,448</u>



**TILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**FINANCIAL TRENDS**  
**CHANGES IN NET POSITION (Continued)**  
**FISCAL YEARS 2018 – 2009**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b><u>Change in Net Position</u></b>										
Utility Activities										
Total Utility Revenues	\$ 87,635,933	\$ 92,694,656	\$ 89,843,070	\$ 86,874,930	\$ 96,295,319	\$ 91,287,479	\$ 97,465,909	\$ 96,504,928	\$ 105,084,587	\$ 109,594,309
Total Utility Expenses	<u>79,869,807</u>	<u>94,218,299</u>	<u>85,780,642</u>	<u>84,206,063</u>	<u>88,818,340</u>	<u>87,765,283</u>	<u>84,519,185</u>	<u>87,420,315</u>	<u>99,833,380</u>	<u>102,027,642</u>
Utility Change in Net Position	7,766,126	(1,523,643)	4,062,428	2,668,867	7,476,979	3,522,196	12,946,724	9,084,613	5,251,207	7,566,667
Non-Utility Activities										
Total Non-Utility Revenues	15,761,235	20,394,804	2,937,645	5,543,771	4,199,686	2,572,069	5,268,866	2,390,157	2,281,144	2,911,091
Total Non-Utility Expenses	<u>4,830,224</u>	<u>4,481,593</u>	<u>4,920,309</u>	<u>6,789,152</u>	<u>5,585,582</u>	<u>6,133,439</u>	<u>7,813,613</u>	<u>32,112,344</u>	<u>4,452,803</u>	<u>4,546,806</u>
Non-Utility Change in Net Position	10,931,011	15,913,211	(1,982,664)	(1,245,381)	(1,385,896)	(3,561,370)	(2,544,747)	(29,722,187)	(2,171,659)	(1,635,715)
Change in Net Position	<u>\$ 18,697,137</u>	<u>\$ 14,389,568</u>	<u>\$ 2,079,764</u>	<u>\$ 1,423,486</u>	<u>\$ 6,091,083</u>	<u>\$ (39,174)</u>	<u>\$ 10,401,977</u>	<u>\$ (20,637,574)</u>	<u>\$ 3,079,548</u>	<u>\$ 5,930,952</u>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**FINANCIAL TRENDS**  
**NET POSITION BY COMPONENT**  
**FISCAL YEARS 2018 - 2009**

	<b><u>2018</u></b>	<b><u>Restated 2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Utility Activities										
Net Investment in Capital Assets	\$ 132,753,278	\$ 117,010,466	\$ 96,179,764	\$ 90,614,864	\$ 82,992,962	\$74,349,452	\$69,866,406	\$61,312,051	\$82,248,111	\$76,593,445
Restricted	9,382,791	8,614,247	5,402,634	9,573,696	8,041,846	8,588,680	7,644,813	6,864,884	2,997,107	3,188,316
Unrestricted	<u>(89,767,178)</u>	<u>(34,117,989)</u>	<u>(24,465,242)</u>	<u>(25,151,168)</u>	<u>(3,129,218)</u>	<u>(1,123,625)</u>	<u>4,342,462</u>	<u>3,274,769</u>	<u>6,844,060</u>	<u>9,227,969</u>
Total Net Position	<u>\$ 52,368,891</u>	<u>\$ 91,506,724</u>	<u>\$ 77,117,156</u>	<u>\$ 75,037,392</u>	<u>\$ 87,905,590</u>	<u>\$81,814,507</u>	<u>\$81,853,681</u>	<u>\$71,451,704</u>	<u>\$92,089,278</u>	<u>\$89,009,730</u>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**REVENUE CAPACITY**  
**REVENUES BY TYPE OF CUSTOMER**  
**FISCAL YEARS 2018-2009**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Residential	\$ 42,404,725	\$ 45,191,605	\$ 43,851,413	\$ 42,282,049	\$ 46,366,673	\$ 42,533,827	\$ 45,061,783	\$ 45,069,747	\$ 48,205,995	\$ 48,875,062
Senior Citizen	615,488	692,081	677,228	691,388	776,827	637,247	567,358	590,760	679,315	567,634
Small Commercial	8,859,294	9,947,757	9,397,508	9,447,366	10,658,271	9,963,899	10,489,560	10,211,053	10,258,593	11,430,140
Large Commercial	26,117,541	27,871,019	26,102,906	24,559,411	27,633,199	26,763,839	28,371,301	28,064,775	30,124,699	31,847,083
Large Commercial-Primary	934,611	1,286,101	1,390,287	2,074,651	2,125,496	2,132,495	2,591,693	2,534,796	2,842,446	2,686,606
Military	5,446,791	5,969,755	5,681,115	5,667,958	6,339,908	6,625,457	7,426,468	7,573,830	8,478,864	9,708,708
Churches	76,264	78,496	77,791	75,575	88,591	73,151	82,051	88,922	97,813	106,856
Recreating Lighting	-	-	26,541	25,552	27,058	30,475	27,139	20,523	20,202	21,428
Street Lighting	435,279	449,628	487,817	485,693	527,096	514,325	487,425	355,839	332,508	461,627
Area Lights	<u>160,860</u>	<u>172,300</u>	<u>184,898</u>	<u>193,522</u>	<u>201,284</u>	<u>209,036</u>	<u>218,578</u>	<u>198,513</u>	<u>223,993</u>	<u>220,302</u>
<b>Total Electric Revenues</b>	<u>\$ 85,050,853</u>	<u>\$ 91,658,742</u>	<u>\$ 87,877,504</u>	<u>\$ 85,503,165</u>	<u>\$ 94,744,403</u>	<u>\$ 89,483,751</u>	<u>\$ 95,323,356</u>	<u>\$ 94,708,758</u>	<u>\$ 101,264,428</u>	<u>\$ 105,925,446</u>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**REVENUE CAPACITY**  
**ACTUAL NUMBER OF CUSTOMERS BILLED**  
**(Month of September)**  
**FISCAL YEARS 2018 - 2009**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Residential	24,890	24,980	24,978	24,841	24,659	24,267	24,190	24,143	23,884	23,857
Senior Citizen	571	604	587	619	647	602	470	476	504	478
Small Commercial	3,689	3,740	3,689	3,590	3,530	3,517	3,525	3,388	3,327	3,279
Large Commercial	771	700	690	682	672	679	661	638	655	658
Large Commercial-Primary	3	3	3	5	6	6	6	6	6	8
Military	12	12	12	12	12	14	14	14	14	14
Churches	12	12	12	12	12	11	11	11	13	16
Recreating Lighting	-	-	4	4	4	5	5	4	3	3
Street Lighting	7	6	5	5	5	5	5	5	5	5
Area Lights	<u>54</u>	<u>52</u>	<u>1,323</u>	<u>1,323</u>	<u>1,323</u>	<u>1,323</u>	<u>1,323</u>	<u>1,439</u>	<u>1,439</u>	<u>1,439</u>
<b>Total Customers</b>	<u>30,009</u>	<u>30,109</u>	<u>31,303</u>	<u>31,093</u>	<u>30,870</u>	<u>30,429</u>	<u>30,210</u>	<u>30,124</u>	<u>29,850</u>	<u>29,757</u>

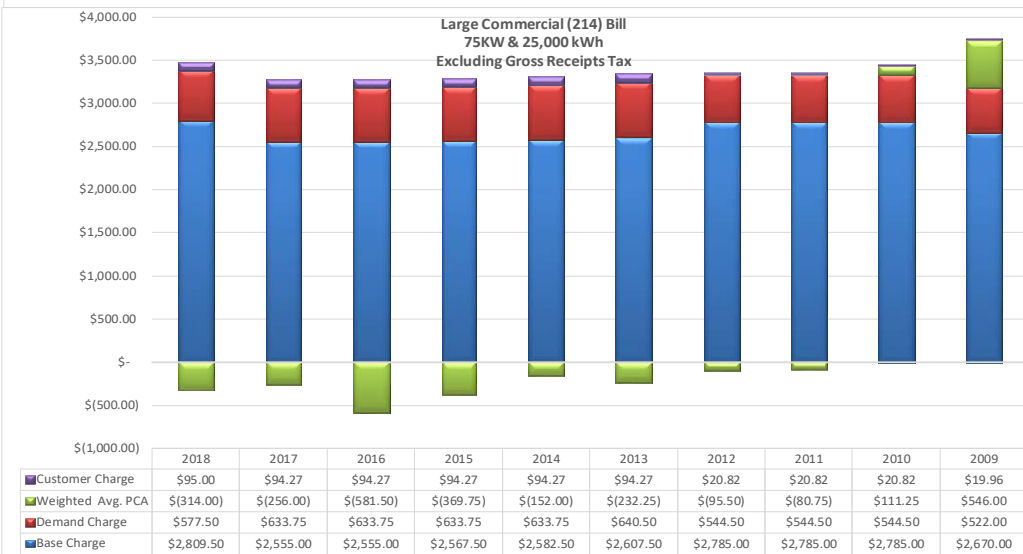
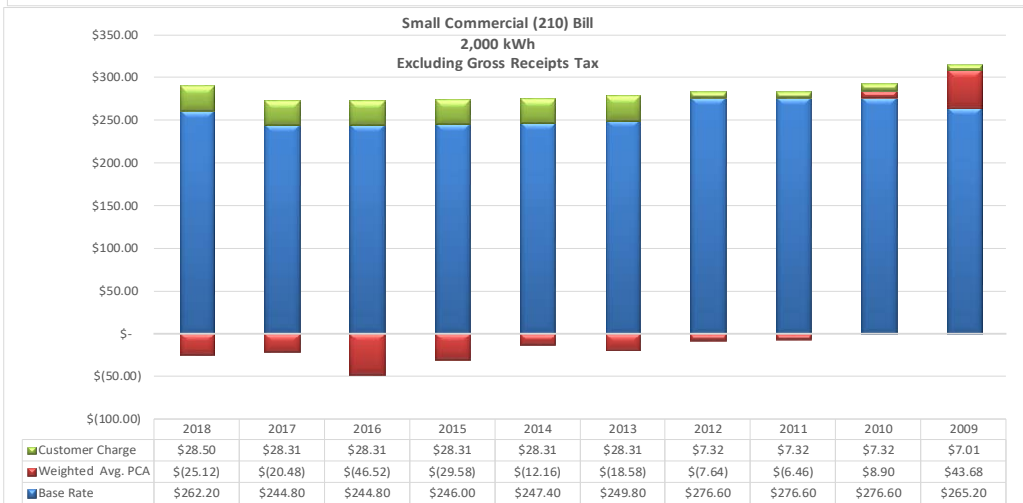
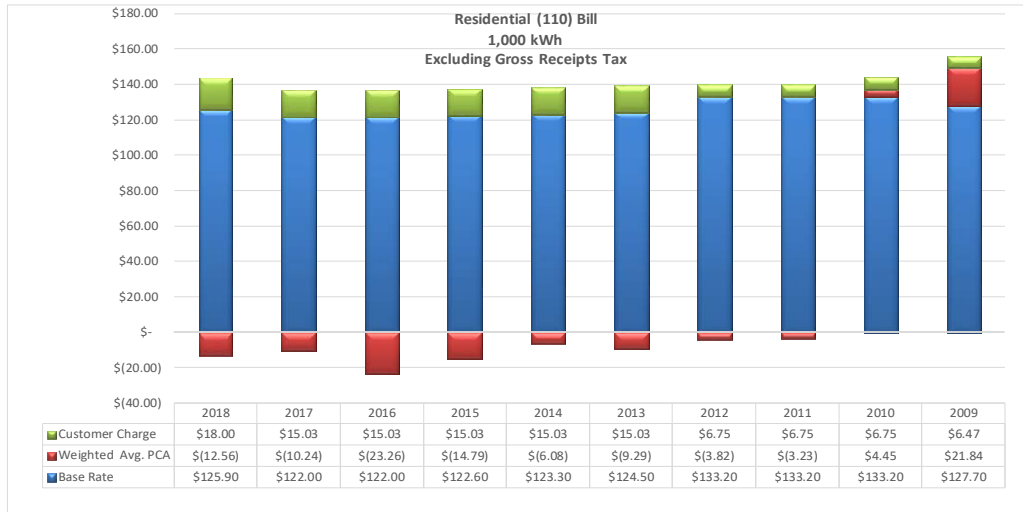
As of October 2016, changed Area Lights count to include Area Light only customers instead of total # of Area Lights

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**REVENUE CAPACITY**  
**kWh SALES BY TYPE OF CUSTOMER**  
**FISCAL YEARS 2018 - 2009**

	<u>2018 *</u>	<u>2017 *</u>	<u>2016 *</u>	<u>2015 *</u>	<u>2014 *</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Residential	342,483,281	349,757,277	367,324,629	354,081,145	367,904,886	321,844,576	324,591,272	323,376,914	327,891,790	306,412,074
Senior Citizen	5,450,992	5,641,663	5,988,755	6,107,664	6,421,613	5,076,910	4,278,721	4,431,285	4,813,342	3,708,660
Small Commercial	67,826,729	74,540,913	76,331,493	76,905,343	81,605,992	73,709,059	73,721,931	71,432,985	68,036,855	70,227,949
Large Commercial	222,526,808	229,879,821	233,988,529	220,110,839	231,795,251	217,310,460	218,661,192	215,142,590	216,912,387	210,898,837
Large Commercial-Primary	8,713,718	11,106,513	13,283,470	19,813,836	18,893,417	18,359,458	20,750,140	20,218,840	21,234,670	18,498,199
Military	48,427,666	50,564,403	52,626,848	52,525,742	54,530,993	55,799,116	59,645,920	60,739,110	64,148,957	67,370,482
Churches	569,223	538,285	577,545	563,753	558,523	479,309	524,512	563,119	591,294	602,154
Recreating Lighting	-	-	185,079	176,025	174,156	192,439	163,563	122,613	114,580	114,100
Street Lighting	2,798,065	2,411,948	1,966,572	1,896,067	1,987,684	1,964,908	2,069,668	2,397,191	2,709,204	2,697,333
Area Lights	<u>96,654</u>	<u>51,212</u>	<u>777,749</u>	<u>779,195</u>	<u>810,751</u>	<u>776,616</u>	<u>1,227,291</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>
<b>Total kWh</b>	<u>698,893,136</u>	<u>724,492,035</u>	<u>753,050,669</u>	<u>732,959,609</u>	<u>764,683,266</u>	<u>695,512,851</u>	<u>705,634,210</u>	<u>699,802,163</u>	<u>707,830,595</u>	<u>681,907,304</u>

\* Includes Accrued unbilled kWh sales

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**REVENUE CAPACITY**  
**RATE ANALYSIS – RESIDENTIAL & COMMERCIAL**  
**FISCAL YEARS 2018 - 2009**



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**DEBT CAPACITY**  
**COMPUTATION OF DEBT SERVICE COVERAGE**  
**FISCAL YEARS 2018 – 2009**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenue	\$ 87,635,933	\$ 92,694,656	\$ 89,843,070	\$ 86,874,930	\$ 96,294,969	\$ 91,334,761	\$ 97,411,071	\$ 96,415,111	\$ 104,964,602	\$ 109,499,486
Other Income	3,287,929	2,869,123	2,607,967	4,745,516	4,170,307	2,560,319	4,853,083	2,470,585	2,281,144	2,911,570
Rate Stabilization Transfers	-	2,550,000	-	-	-	-	(360,082)	1,357	(1,357)	2,662,964
Total Revenues Available	90,923,862	98,113,779	92,451,037	91,620,446	100,465,276	93,895,080	101,904,072	98,887,053	107,244,389	115,074,020
Total Operating Expenses *	74,293,932	80,798,159	74,010,679	72,975,468	78,528,630	77,364,351	77,542,677	80,397,363	91,916,658	94,847,669
Net Revenues Available for Coverage	<u>\$ 16,629,930</u>	<u>\$ 17,315,620</u>	<u>\$ 18,440,358</u>	<u>\$ 18,644,978</u>	<u>\$ 21,936,646</u>	<u>\$ 16,530,729</u>	<u>\$ 24,361,395</u>	<u>\$ 18,489,690</u>	<u>\$ 15,327,731</u>	<u>\$ 20,226,351</u>
Annual Debt Service	<u>\$ 11,152,888</u>	<u>\$ 11,152,888</u>	<u>\$ 11,152,888</u>	<u>\$ 11,228,037</u>	<u>\$ 11,258,588</u>	<u>\$ 10,372,656</u>	<u>\$ 10,380,906</u>	<u>\$ 10,383,432</u>	<u>\$ 10,373,069</u>	<u>\$ 8,392,294</u>
Debt Service Coverage Ratio	1.49	1.55	1.65	1.66	1.95	1.59	2.35	1.78	1.48	2.41

\* FY13-FY18 exclude unfunded OPEB and Pension costs (as applicable) per revised bond resolution

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**DEBT CAPACITY**

**TOTAL PAYMENTS (PRINCIPAL & INTEREST) PAYABLE FOR ALL DEBT ISSUES THROUGH 2032**

**TOTAL PAYMENTS (PRINCIPAL & INTEREST) PAYABLE ON ALL DEBT ISSUES THROUGH FY 2032**

Payments Due for FY	Number of Customers <sup>(1)</sup>	Debt per Capita	Total for all Debt Issues	Refunding Revenue Bonds		
				1991 Series Bond Issue	2014 Bond Issue	
2019	30,009	\$ 371.65	\$ 11,152,888	\$ 9,270,000	\$ 1,882,888	
2020	30,009	137.47	4,125,388	-	4,125,388	
2021	30,009	137.38	4,122,513	-	4,122,513	
2022	30,009	137.41	4,123,638	-	4,123,638	
2023	30,009	137.24	4,118,513	-	4,118,513	
2024	30,009	137.03	4,112,013	-	4,112,013	
2025	30,009	136.76	4,103,888	-	4,103,888	
2026	30,009	136.75	4,103,638	-	4,103,638	
2027	30,009	136.65	4,100,763	-	4,100,763	
2028	30,009	137.59	4,128,963	-	4,128,963	
2029	30,009	136.48	4,095,538	-	4,095,538	
2030	30,009	136.33	4,091,163	-	4,091,163	
2031	30,009	137.18	4,116,637	-	4,116,637	
2032	30,009	135.94	4,079,500	-	4,079,500	
				\$ 64,575,043	\$ 9,270,000	\$ 55,305,043

<sup>(1)</sup> The same number of customers was used for all years due to the limited land available in Key West and Lower Florida Keys. Monroe County has a strict regulated growth policy where further development is limited and any future changes in the number of customers would be minimal



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**DEMOGRAPHIC AND ECONOMIC INFORMATION**

**FISCAL YEARS 2018 - 2009**

Year	Key West Population <sup>(3)</sup>	Key West Personal Income <sup>(3)</sup>	Monroe County Per Capita Income <sup>(3)</sup>	Monroe County Median Age <sup>(3)</sup>	Monroe County Unemployment Rate <sup>(2)</sup>
2018	(4)	(4)	(4)	(4)	(4)
2017	25,208	(4)	(4)	47.1	3.3%
2016	26,990	\$ 58,494	\$ 36,771	46.7	3.2%
2015	25,755	\$ 57,042	\$ 36,208	46.8	3.5%
2014	25,704	\$ 54,306	\$ 34,424	46.7	4.1%
2013	25,550	\$ 53,796	\$ 33,974	46.5	4.8%*
2012	25,119	\$ 52,660	\$ 34,277	46.4	5.7%
2011	24,873	\$ 51,385	\$ 35,074	46.1	7.0%
2010	24,649	(4)	\$ 36,086	46.4	7.8%
2009	22,364	\$ 60,173	\$ 34,174	47.4	6.8%

Sources:

(1) Key West Chamber of Commerce

(2) US Department of Labor Bureau of Labor Statistics

(3) US Census Bureau

(4) Data not available

\* Data updated based on most recent statistics published by source.

**MONROE COUNTY MAJOR EMPLOYERS**

<b>Sector</b>	<b>Ranking</b>	<b>Employer Name</b>	<b>Number of Employees <sup>(1)</sup></b>
Public	1	US Armed Services (including civilian support & contractors)	2,190
	2	Monroe County Schools	1,183
	3	Monroe County Sheriff's Office	539
	4	Monroe County Government	570
	5	City of Key West	501
	6	Florida Keys Aqueduct Authority	277
	7	Florida Keys Community College	205
	8	Keys Energy Services <sup>(2)</sup>	123
Private	1	Ocean Reef Club	1,123
	2	Publix Stores	540
	3	Lower Keys Medical Center	437
	4	Margaritaville Resort & Marina/Sunset Key	324
	5	Hawk's Cay Resort	130
	6	Casa Marina/Reach Resort	356
	7	Spottswood Properties	355
	8	Historic Tours of America	300

**Sources:**

<sup>(1)</sup> Key West Chamber of Commerce - as of January 2018

<sup>(2)</sup> Keys Energy Services - as of September 2018

Since the information above is listed by rank and the rank changes yearly only the current year is presented.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**OPERATING INFORMATION**  
**OPERATING EXPENSES**  
**FISCAL YEARS 2018- 2009**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Electric Operating Expenses</b>										
Production - Diesel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 359,330	\$ 1,557,898	\$ 2,186,002
Purchased Power	44,486,246	51,340,755	46,744,853	45,567,232	52,691,941	51,738,636	50,658,853	52,961,249	63,272,371	66,847,376
Transmission	7,681,566	7,167,798	6,446,897	5,479,645	5,653,600	5,647,880	4,782,103	4,793,953	4,519,506	4,648,803
Distribution	8,558,458	7,681,620	7,553,159	5,031,891	3,736,558	3,798,706	3,800,595	3,844,570	3,939,956	4,065,166
Customer Accounts, Collection and Services	2,062,154	2,117,621	1,935,831	1,195,377	1,222,595	1,383,512	1,242,695	1,256,967	1,663,487	1,675,437
Administrative and General	7,340,530	16,113,156	13,577,487	17,447,454	15,723,183	15,540,816	14,555,804	14,682,883	14,288,249	12,620,134
Depreciation	7,531,883	7,434,250	7,377,387	7,151,518	7,297,266	7,294,534	6,979,378	7,033,190	7,925,719	7,190,781
Taxes Other Than Income Tax	<u>2,208,970</u>	<u>2,363,099</u>	<u>2,145,028</u>	<u>2,332,946</u>	<u>2,493,197</u>	<u>2,361,199</u>	<u>2,499,757</u>	<u>2,488,173</u>	<u>2,666,194</u>	<u>2,793,943</u>
<b>Total Electric Operating Expenses</b>	<u>\$79,869,807</u>	<u>\$94,218,299</u>	<u>\$85,780,642</u>	<u>\$84,206,063</u>	<u>\$88,818,340</u>	<u>\$87,765,283</u>	<u>\$84,519,185</u>	<u>\$87,420,315</u>	<u>\$ 99,833,380</u>	<u>\$ 102,027,642</u>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**OPERATING INFORMATION**  
**EMPLOYEE INFORMATION**  
**FISCAL YEARS 2018 - 2009**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>General Manager's Department</b>	7	7	9	10	10	10	11	11	13	13
<b>Engineering &amp; Control</b>	20	20	20	20	19	19	20	19	21	22
<b>Customer Services</b>	25	26	26	27	27	27	27	28	30	33
<b>Finance</b>	13	15	15	15	15	15	16	16	16	16
<b>Transmission &amp; Distribution</b>	36	34	33	31	33	32	32	34	35	35
<b>General Plant</b>	13	13	13	12	12	12	13	13	15	16
<b>Generation</b>	<u>9</u>	<u>8</u>	<u>10</u>	<u>10</u>	<u>11</u>	<u>14</u>	<u>15</u>	<u>17</u>	<u>19</u>	<u>22</u>
<b>Total</b>	<u>123</u>	<u>123</u>	<u>126</u>	<u>125</u>	<u>127</u>	<u>129</u>	<u>134</u>	<u>138</u>	<u>149</u>	<u>157</u>

**Notes:**

The numbers above do not include five (5) Utility Board Members

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**OPERATING INFORMATION**  
**TEN HIGHEST CONSUMPTION LOCATIONS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Ranking	Customer Account	Demand KW	Energy kWh	Dollars *
1	United States Navy	10,500.0	47,550,285	\$ 5,719,778
2	City of Key West	4,754.0	13,060,051	\$ 1,746,519
3	Monroe County School Board	4,181.0	9,475,904	\$ 1,361,171
4	Key West HMA Inc	1,149.4	6,636,344	\$ 834,505
5	United States Coast Guard	1,884.0	7,429,130	\$ 829,641
6	Winn Dixie Stores	1,065.9	6,532,239	\$ 810,754
7	Monroe County Detention Center	1,061.8	6,877,500	\$ 789,453
8	Florida Keys Aqueduct Authority	2,263.7	5,660,223	\$ 782,462
9	Publix Supermarkets, Inc	870.3	5,204,320	\$ 647,032
10	Casa Marina Owner LLC	867.2	4,177,292	\$ 532,038

\* excludes accrual for unbilled kWh sales and PCA accrual adjustment

Since the customer information above is listed by rank and the rank changes yearly, only the current year is presented.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Utility Board of the City of Key West, Florida  
"Keys Energy Services"  
Key West, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Utility Board of the City of Key West, Florida, d/b/a Keys Energy Services, ("KEYS") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise KEYS' basic financial statements and have issued our report thereon dated January 23, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered KEYS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KEYS' internal control. Accordingly, we do not express an opinion on the effectiveness of KEYS' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we

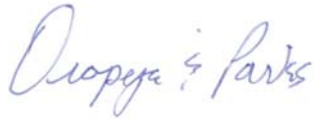
consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether KEYS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Oropesa & Parks".

January 23, 2019



Members:  
AMERICAN INSTITUTE OF CPA'S  
FLORIDA INSTITUTE OF CPA'S

**OROPEZA  
& PARKS**  
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*John G. Parks, Jr., CPA - retired*

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James H. Hill, Jr., CPA, PLLC

## **REPORT OF INDEPENDENT ACCOUNTANT ON COMPLIANCE WITH LOCAL GOVERNMENT INVESTMENT POLICIES**

Utility Board of the City of Key West, Florida  
"Keys Energy Services"  
Key West, Florida

### **Report on Compliance**

We have examined the Utility Board of the City of Key West, Florida d/b/a Keys Energy Services, ("KEYS") compliance with the local government investment policy requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2018. Management is responsible for KEYS' compliance with those requirements. Our responsibility is to express an opinion on KEYS' compliance based on our examination.

### **Scope**

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about KEYS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of KEYS's compliance with specified requirements.

### **Opinion**

In our opinion, Keys Energy Services complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

January 23, 2019